

DISPATCH

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FROM Chief of Base, Berlin

DATE
15 September 1958

SUBJECT **Operational/CADREY
LOCASOCK/Review of Schlagzeug Commercialization**

RE: "43-3" - (CHECK "X" ONE)

MARKED FOR INDEXING

XI

NO INDEXING REQUIRED

ACTION REQUIRED **Consideration and Approval of Para 30 Proposal,
in context of FY 59 Operational Program, being separately
referenced.**

INDEXING CAN BE JUDGED
BY QUALIFIED HQ. DESK ONLY

DECLASSIFIED AND RELEASED BY
CENTRAL INTELLIGENCE AGENCY
SOURCE METHOD EXEMPTION 3B2B
NAZI WAR CRIMES DISCLOSURE ACT
DATE 2007

- A. HRBA-47295, 7 Apr 1958
- B. HRBA-48115, 22 Apr 1958
- C. HRBA-49775, 12 May 1958
- D. FRAN 8230, 18 Jul 1958
- E. HRBA-10564, 13 Aug 1958

1. In this dispatch we shall attempt to analyze as objectively as possible the results of the three-month experimental period (May-June 1958) of Schlagzeug commercialization and to derive therefrom conclusions regarding a continuation of this program. Prefacing this analysis is a summary statement of the purposes and objectives of commercialization. Following that the main body of the report will present a detailed picture of the editorial, production and distribution aspects of the program. A separate section will deal with the financial aspects of the program. Here an analysis of costs and income over the experimental period is used as a basis for converting original estimates and for projecting our best assessment of future Schlagzeug viability. The next section is concerned with the KUCAGE aspects of Schlagzeug commercialization, i.e., the distribution of a small portion of Schlagzeug production for KUCAGE target consumption. In the final section we will note our conclusions from the foregoing review and, based thereon, attempt a forecast of future commercialization, within the framework of the budgetary limitations authorized and the proposals recommended in Reference E.

PURPOSES AND OBJECTIVES:

2. The idea of LOCASOCK commercialization has been under consideration at least since December 1955, at which time the establishment of a legitimate LOCASOCK business and appropriate cover activities was discussed (see HRBA-28318, 13 December 1955). From the very beginning, commercialization was conceived by EGB as a logical concomitant of legalization, that is, it was viewed as the backstopping element which would provide substance to the legalized publishing firm into which LOCASOCK was being transformed. Since that time, legalization has been accomplished. LOCASOCK is now a legally established enterprise, legitimately funded via a backstopped funding channel and legally controlled through LOCASOCK-7 by KUBARK's 76% equity holding (operational control remaining in the LOCASOCK-1/case officer relationship). Corresponding to this development, the idea of

APPROVED: _____

- Attachments:
- A. July 1958 Issue of Schlagzeug (use)
 - B. LOCASOCK Personnel and Salary List (use)
 - C. Projected Schlagzeug Prod, Dist and Sales (use)
 - D. Projected Schlagzeug Costs and Income (use)
 - E. Projected Schlagzeug Costs & Income, in Relation to KUBARK Support of LOCASOCK (use)
 - F. Die Welt News Item of 8 Aug 1958 (use)
 - G. Identities (use)

Distribution:

- 3 - EK w/atts.
- 2 - COS w/atts.

acc

SECRET

*LOCASOCK/ops
(copy w/atts)
Lickbach/11*

commercializing a portion of LCCASSOCK editorial, production and distribution capability, as a corollary to legalization, was revived and became a topic for serious consideration. In discussions between COS, Headquarters and BOB over the past year, the advantages of this step were reviewed. In probable order of importance, they may be summarized as follows:

a. Commercialization would provide the only permanently satisfactory cover appropriate to the newly incorporated LCCASSOCK publishing firm. By lending substance to the legal form, it would automatically supplement the funding and legal ownership of LCCASSOCK via and thereby help screen KREBANK operational interest in the firm. As our utilization of LCCASSOCK facilities becomes more selective, the nature and organization of the firm would more closely approximate that of a legitimate publishing house and thus confirm the legitimacy of LCCASSOCK in the eyes of the German community. The establishment of legitimate commercial cover would of course become of paramount importance if KREBANK were ever obliged, either because of German political developments, e.g., reunification, or as the result of internal operational requirements, to transform LCCASSOCK into a third-country operation. In this eventuality--admittedly speculative at the moment but certainly not excluded as a possibility in long-range planning--the advantages of a firmly-founded, independent commercial cover in West Berlin (and West Germany) for propaganda operations into the Soviet bloc are self-evident. Again we assume here that it is our long-term intention to maintain the LCCASSOCK project as a legally-owned KUCAGE asset, albeit on a selective financial and operational basis. On this assumption, and regardless of the status of the firm as a "revealed group" vis-a-vis HEGROPING or of the extent and nature of HEGROPING operational participation in the future, our own long-range operational interest would be enormously benefited by such independent commercial cover. We agree with Reference E that this is certainly the most compelling argument for LCCASSOCK commercialization.

b. The development of commercial capacity--income from sales and, possibly, the stimulation of financial interest in LCCASSOCK on the part of outside backers--would provide the basis for a measure of gradually increasing financial independence for LCCASSOCK.

c. Commercialization would probably improve the chances of HEGROPING interest and participation in LCCASSOCK. This is admittedly a tentative hypothesis at this stage, since we do not know what criteria CANAM or other HEGROPING agencies may use in evaluating LCCASSOCK's usefulness. We strongly suspect, however, that evidence of LCCASSOCK's competitive vitality, its appearance of open and above board legitimacy, and its avowed interest in maintaining an "all-German" theme in its commercial media would exert a distinctly favorable influence on future HEGROPING consideration of LCCASSOCK KUCAGE capabilities.

d. Commercialization would undoubtedly be affected, implicitly if not explicitly, by KUCAGE influence exerted by the case officer, to the end that the commercial media would absorb "diluted" KUCAGE themes and thus augment existing KUCAGE operations in West Germany and other Western European countries in which such media were marketed. Beyond this, direct exploitation of the publication(s) as KUCAGE media could be continued via LCCASSOCK mail distribution into the Soviet bloc.

3. On the strength of the above considerations, we proposed in Reference A a program of limited LCCASSOCK commercialization. Schlagzeug was selected as the most promising candidate for this purpose, although Fernschreiber was also considered to have some limited potential as a commercialized publication. Our reasons for selecting Schlagzeug are detailed in Reference A. The practical drawbacks to this venture were clearly recognized from the start: the uncertainty as to the size of the investment and the length of time required before a commercialized publication could begin to pay its own way, and, as a corollary to that uncertainty, the lack of relevant business experience on the part of both LCCASSOCK-1 and the case officer with regard to the extent and nature of commercial competition in this particular field. To provide a reliable factual basis to minimize

these uncertainties, it was decided to proceed slowly on a month-by-month basis for an experimental period of three months (March-June 1958) and to reassess the status and future of commercialization in the light of the results of that test period. Our preliminary and necessarily tentative estimates of production, distribution, costs and income over that period and our tentative projection of these estimates in terms of long-range viability were detailed in the Reference A report. An interim report on the program was transmitted in Reference C. In the sections below is our post facto review and analysis of the results of the experimental period.

RESULTS OF EXPERIMENTAL COMMERCIALIZATION:

4. Administration: The administrative burden of commercialization--over and above the maintenance of the editorial staff (see below)--was not calculable at the time the Reference A report was written. The reason for this is that relevant data enabling us to make a pre-rated estimate of Schlagzeug overhead costs were not available. This information has since been compiled by LCCASSOCK-1, and we are now in a better position to assess this aspect of the program. It is estimated that approximately 10% of LCCASSOCK-1's time and effort has been devoted to Schlagzeug over the three-month period (see Attachment B). In addition, about 11% of the firm's administrative machinery has been utilized for the program. The remainder of LCCASSOCK administrative capacity continued as before to be allotted to KUCAGE activities. An exception to this general estimate must be made in the case of overhead costs of LCCASSOCK public relations efforts, the bulk of which was devoted to commercialization during the experimental period. The high point in this respect was reached in May, when a strong Schlagzeug delegation attended the Frankfurt/M jazz festival and the LCCASSOCK distribution chief traveled throughout West Germany, Austria and Switzerland establishing marketing outlets through magazine sales agencies and concert halls.

5. Editorial: The editorial staff of Schlagzeug was expanded slightly after commercialization began. LCCASSOCK-6 is, of course, the chief editor of the publication. His journalistic talent and his many professional contacts in the field of jazz are recognized as major assets in the program. Under him is one full-time employee, Identity-1, who is a contributing editor and technical advisor on the intricacies of jazz (hired in June), and one part-time worker, Identity-2, an editorial secretary. In addition, two part-time editors are engaged on a regular honoraria basis: LCCASSOCK-2 contributes regularly to the publication and handles much of the public relations work load on its behalf; and Identity-3 is also partially engaged as a Schlagzeug contributing editor (see Attachment B). Other contributors are engaged to write specific articles for specified fees.

6. The editorial technique, format and content of the new Schlagzeug have already been commented upon in References A and C. As a further point of reference, sample copies of the July and August issues (24 and 28-page editions, respectively, each produced in 15,000 copies) are forwarded under separate cover as Attachment A. In the five commercialized issues thus far produced, the development of Schlagzeug as an attractive, informative and technically responsible journal of jazz is apparent. In this growing-up process it has expanded from 20 to 28 pages, increased the quality and number of articles of interest to jazz students and fans (including contributions by leading composers, critics and jazz leaders), developed its own international and specifically "all-German" approach to jazz (thereby maintaining, incidentally, its usefulness as a KUCAGE medium for Soviet bloc consumption), greatly improved the variety and attractiveness of its "filler" articles ("in der presse", cartoons, letters to the editor, a "jazz puzzle" series, etc.) and--in general--has gradually come to be recognized by jazz experts and fans alike as the best journal of its kind presently appearing in Germany. Favorable evaluations of its journalistic techniques and content from professional musicians, readers and journalist/publisher circles have been submitted in previous reporting. Supplementing these reactions, we might note parenthetically that Schlagzeug is now fully accredited by the West German Jazz Federation--a recognition that is expected to result, incidentally, in concrete commercial benefits, through the well-established liaison arrangement with the Federation's Frankfurt/M office and through preferential franchises given the magazine at future Federation-sponsored concerts and tours.

7. Continuing on the practical aspects of Schlagzeug's editorial content, it should be noted that the improvement in quality has been accompanied by a gradual increase in the number of ads appearing in the publication. These ads were procured by LOCCASOCK directly, that is, through direct public relations efforts by LOCCASOCK staffers or associates, or through ad agencies engaged on a fee basis. Their procurement made it possible to expand the magazine to 28 pages sooner than was anticipated and thus "fattened" its size to an extent commensurate with its DM 1.00 sales price. It is expected that as the number of ads increase, additional pages can be added with little or no increase in production cost and, of course, with no increase in the present sales price.

8. Production: The production schedule of Schlagzeug over the experimental period can be tabulated as follows:

March (April issue),	20 pages	10,000 copies
April (May issue),	20 pages	10,000 copies
May (June issue),	24 pages	13,000 copies
Total production		33,000 copies

Except for the four-page center spread in each issue, which is specially printed by an outside firm, all of the above copies were produced on LOCCASOCK's own printing press. The increase in the June issue to 13,000 copies and 24 pages—a boost which was not anticipated in our original estimates—was deemed necessary to take advantage of new marketing outlets, namely, concert sales and distribution through West German, Austrian and Swiss distribution agencies, during that month. Not included in the above schedule are 15,000 copies (24 pages) of the July issue, which were produced during June. Production of this and subsequent issues was approved on the basis of our preliminary review of costs and the results of the first three commercialized issues. In our cost analysis data presented below, production expenditures incurred for the July issue are included.

9. Distribution: Commercial distribution of the above production was planned to take advantage of all available outlets. Large-scale distribution which would have ensured immediate and extensive coverage of potential markets and customers was precluded, both because of the prohibitive "commission" costs charged by the large magazine vending agencies and the equally prohibitive cost of the large numbers of copies which would be required for such blanket coverage. The impracticality of adopting this "large-volume" approach made it necessary for LOCCASOCK to exploit to the fullest its existing distribution possibilities and to create as fast as possible its own distribution apparatus independently of established market outlets. The time and effort needed for this task were, it must be admitted, not fully appreciated at the time the reference A was prepared. For example, it soon became apparent that the creation of volume subscription sales would be a long draw-out process, the progress of which would be strictly limited by the LOCCASOCK distribution office's mailing capacity (the bulk of which was to remain available for priority KUCAGE distribution), the number of copies available (several outlets, including KUCAGE distribution, had to be provided for simultaneously), and our instructions not to become involved in long-range commitments at this stage, that is, anything beyond a month-to-month subscription arrangement. Under these conditions distribution facilities had to be built from the ground up—a job which took up most of the distribution effort during the experimental period and which greatly restricted the chances of immediate, ready-cash, publisher-to-customer sales.

10. Three LOCCASOCK employees were engaged full-time on Schlagzeug distribution during the experimental period: Identity-4 was hired in May to take charge of the Berlin commercial distribution apparatus. Before he was brought in, Identity-5 was almost wholly occupied with this task. After May the latter's work was more evenly divided between Schlagzeug and KUCAGE distribution activities and his services on behalf of commercialization were thereafter devoted primarily to establishing and maintaining new sales outlets in West Germany, Austria and Switzerland. The other two full-time employees were Identity-6, in charge of the newly-established Schlagzeug public relations (and potential distribution) office in the West German Jazz Federation building in Frankfurt/M; and Identity-7, a distribution clerk. It is estimated that 25% of the work time of six other LOCCASOCK distri-

bution office clerks, Identities 8 through 13, was devoted to Schlagzeug commercial distribution during the period (see Attachment B).

11. The following breakdown shows the month-by-month commercial distribution of Schlagzeug during the three-month period. Note: These figures represent outgoing copies regardless of issue number; because of the inevitable lag and variety in distribution following production and the impracticality of subsequently matching distribution results with a particular issue's production run, a single month's figures do not necessarily reflect the disposition of copies produced in the immediately preceding month.

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Totals</u>
Free sample copies regularly sent via post office magazine account to clubs, businesses and individuals	5747	3987	4103	13,837
One-time mailings directly from LCCASSOCK to potential customers	1045	980	1403	3,428
Supplied to magazine sales agencies	50	1650	1925	3,625
Supplied directly by LCCASSOCK to individual newsstands (kiosks)	<u>630</u>	<u>1210</u>	<u>732</u>	<u>2,572</u>
Totals	7472*	7827*	8163*	23,462

*The remainder--that is the difference between these totals and the number of copies available in each month--was held in reserve for special sales efforts at jazz concerts, for KUCAGE distribution (see paras 22-23 below), and as a reserve supply to meet commercial demands for back copies.

12. Several aspects of the above tabulation are worth noting: First, the gradual increase in distribution through sales agencies over the three-month period corresponds to the slow, piece-meal build-up of the distribution apparatus. In April LCCASSOCK had only one distribution agency outlet (in West Berlin); in May one more Berlin agency and the first sales agency in West Germany were added; in June seven more West German agencies and an Austrian agency were added. Extending the survey beyond the three-month experimental period, 80 additional agencies were approached by LCCASSOCK in July with regard to Schlagzeug distribution; and by the end of August approximately 30 such outlets were being utilized. Paralleling this gradual development, the number of individual newsstands (kiosks) distributing Schlagzeug rose surely and steadily over the three-month period: The first purely commercial kiosk outlet was engaged in April; by the end of June the number of such kiosks had increased to over 150; at the end of August the number was about 200. Most of the present outlets are in West Berlin (and do not include the existing LCCASSOCK KUCAGE sector border kiosks); in July the first newsstand outlet was acquired in Frankfurt/M, marking the beginning of kiosk sales in West Germany.

13. Results from the above distribution effort can be seen in the following tabulation. The cost and income aspects of these results are discussed in another section below. The figures in this table represent individual sales, regardless of issue number, and, because of the varying commission and postal arrangements, do not reflect a one copy-1 ISW income ratio.

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Totals</u>
Sold through sales agencies	21	94	147*	262
Sold by individual kiosks	166	248	306	720
Sold at jazz concerts	221	686	31**	938
Sold via individual sub- scriptions	<u>8</u>	<u>35</u>	<u>66</u>	<u>109</u>
Totals	416	1063	570	2,049

*Partial results only. Complete reports on June agency sales in West Germany, Austria and Switzerland have not been received, as of this writing.

**The drop in sales from May to June in this category is attributable to the almost complete suspension of concert performances during the summer season.

14. From the above table it can be seen that the originally anticipated rate of 1,000 sales a month was reached but not consistently achieved during the experimental period. As noted in the above footnotes, however, the drop in sales from May to June is due partly to the onset of the summer season, especially to the temporary suspension of jazz concerts and tours, and partly to the fact that complete sales reports from West German, Austrian and Swiss agency outlets have not yet been received. When the latter reports are all in, it is expected that June sales will run around 700 copies. With a continuing steady rise in subscription sales, a further expansion of sales outlets over the coming months and the resumption of concert sales in the fall, we can reasonably estimate that the rate of sales will increase slowly over the summer months and that beginning in the fall the rate will resume its upward climb beyond the 1,000 level.

COST ANALYSIS:

15. In the Reference A cost analysis we attempted a projection of production and distribution costs from the previous EUCASE edition to future commercialized production. This analysis assumed that commercialized production would run to 10,000 copies monthly and that a single, simplified distribution method would be employed. From our experience of the past months we are now in a position to correct and refine these original estimates. For comparative purposes, the following breakdown of total average monthly, non-salary expenditures of the entire LOCASOCK project for the four-month period from March to June 1958* is given below. (Salary payments as of 1 July are separately tabulated in Attachment B.)

Administrative/management:

Employee benefits	DM	530	
Travel, entertainment, public relations, sales promotion		4,151	
Rent, housekeeping, office supplies & expenses		5,137	
Inventory additions		755	
Insurance, security, business taxes		<u>626</u>	DM 11,199

Editorial:

Honorare, research, source material			3,187
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*(Footnote): A four-month period is used in this and subsequent cost calculations, so as to include preparatory administrative and production activity which began in March 1958.

Printing & physical production:

Inside printing	DPM 3,291	
Outside printing & klishees	<u>11,788</u>	15,079

Distribution:

Hand distribution expenses	73	
Mail distribution expenses	4,303	
Regular distribution fees	<u>2,026</u>	<u>6,402</u>

Total average monthly, non-salary expenditures

DPM 35,867**

16. The portion of the above expenditures directly incurred by Schlagzeug commercialization over the same period, paralleling the above cost categories, is tabulated below:

Administration/management:

Employee benefits	DPM 283	
Sales promotion	1,095	
Office supplies and expenses	141	
Inventory additions	490	
Insurance, business taxes (incl. turnover tax on sales income)	<u>620</u>	DPM 2,629

Editorial:

Honorare, research, source material		913
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Printing & physical production:

Inside printing	553	
Outside printing & klishees	<u>3,281</u>	3,834

Distribution:

Mail distribution expense		<u>36**</u>
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Total average monthly, non-salary expenditures for Schlagzeug commercialization

DPM 7,742

17. The cost data in paragraphs 15 and 16 above require the following comment and interpretation:

a. Manpower costs devoted to Schlagzeug during the experimental period have been described briefly in paragraphs 4-10 above and are detailed in the Attachment B personnel roster. These costs have not been included in the above tabulation because, in most cases, they are impossible to isolate from KUCAGE manpower expenses. Except for the six employees listed in the Attachment B roster who are engaged more or less full-time on Schlagzeug commercialization (2 editors, 1 printer, 2 distribution supervisors and 1 distribution clerk), Schlagzeug manpower is extremely flexible, i.e., it is used interchangeably for KUCAGE operations and Schlagzeug commercialization, depending on day-to-day production and distribution requirements, and thus cannot

**Footnote: This total includes a special GEDMON grant and reflects the above-average use of accumulated reserves within the project during the period of experimental commercialization.

***Footnote: Does not include mailing costs on subscription sales, the bill for which has not yet been received from the Postzeitungsamt, nor costs for Schlagzeug KUCAGE distribution into the Soviet Bloc.

fairly be pigeon-holed as either KUCAGE or commercial. In this sense the manpower percentage allotments to Schlagzeug in the Attachment B list are extremely arbitrary and do not reflect a proportionate subtraction from time and effort devoted to KUCAGE operations.

b. As can be seen from a comparison of the cost data of paragraphs 15 and 16, Schlagzeug commercialization (non-salary) costs averaged about 21% of total non-salary expenditures over the period March to June 1958. In individual categories, Schlagzeug costs averaged 23% of total administrative expenditures, 29% of editorial expenses, 23% of total production costs, and 6% of total distribution expenditures during the period.

c. From the data of paragraph 8 above, as applied to the above analysis, it can be seen that the production cost of the commercialized Schlagzeug (editorial and printing costs, excluding salary outlays) averaged around DMW .40 per copy (DMW 913 plus DMW 3,834, times 4, divided by 48,000). This compares favorably with the maximum per unit production cost of DMW .60 anticipated in Attachment A of the Reference A report. The distribution cost (Western only; again excluding salary outlays), is tentatively calculated at DMW .044 per copy (DMW 366, times 4, divided by 33,000), but will probably be increased slightly as mailing costs on subscription sales become known; at the moment it is considerably lower than our original maximum estimate of DMW .10.

d. Administrative costs in the paragraph 16 breakdown were individually calculated by LCCASSOCK-1 and his staff. Not surprisingly, sales promotion costs constitute the major share of expenses in this category.

e. The contrast between inside and outside printing costs is noteworthy. Despite the fact that only 8 pages (2 covers and 4 center pages) of each issue are printed by an outside firm, the relatively high cost of this specialized printing, plus the outlay for quality Schlagzeug klisters, far outweighs the non-salary cost of the remainder of the publication printed on LCCASSOCK's own press. The basic price of outside printing at present is DMW 1,872 for each 10,000 copies, plus DMW 120.75 for each additional 1,000 copies.

INCOME:

18. The income derived from Schlagzeug commercialization over the four-month period was considerably less than anticipated. In our original analysis (Attachment E, Reference A), we made two erroneous estimates in this regard: we assumed sales would very quickly reach a 1,000 monthly level, ignoring the fact that this rate could only result from a workable sales apparatus, the erection of which proved to be a slow and gradual process; and we overlooked the effect distribution commissions and fees would have on the gross profit from sales. Our original estimates are therefore considerably modified in the light of actual experience.

19. The slow process of building a sales apparatus from the ground up has already been described in paragraphs 12 and 13 above. Related thereto is the considerable lag in subscription sales during the three-month period. By the end of April only 8 orders had been received; by the end of June the number had reached 86, still far behind agency and kiosk sales. Subscription sales bring in the largest income per copy; DMW .97 out of each DMW 1.00 sale is returned to LCCASSOCK. Distribution agencies, on the other hand, retain 50% of the DMW 1.00 sales price for each copy sold and in addition oblige LCCASSOCK to pay all postage charges on its shipments and to receive back at its expense all unsold copies. Kiosk sales allow a compromise profit margin between these two extremes; in most cases the individual kiosk seller retains only 25% of the sales price. Thus, the paradoxical situation: subscription sales are the surest and most profitable method of distribution, but they are also the slowest and most difficult to establish; each potential customer must be approached, either directly via a sample copy or indirectly by exposure to Schlagzeug publicity. Agency sales, on the other hand, represent the least profitable (on a per-unit basis) and the least reliable method; but they are relatively easy to establish (presuming a sufficient production run to

most volume requests) and provide the best mass area coverage which indirectly stimulates subscription sales. Kiosk sales provide the middle way: they bring in a reasonable profit; within the limits of LCCASSOCK distribution capacity they can be individually engaged without too much difficulty; and they provide a basis for at least local area coverage.

20. These three commercial channels provided the core of the LCCASSOCK marketing apparatus during the experimental period. Special sales efforts via jazz concerts were an important adjunct to these methods but were necessarily confined to ad hoc campaigns with widely varying profit margins, depending on individual concert management's demands, and were therefore less consistently reliable. Through the developing liaison arrangements with the West German Jazz Federation, however, it is expected that this channel will be more firmly established in the near future, through a special franchise for Schlagzeug sales at all Federation concerts, and will constitute a permanent and profitable fourth arm to the LCCASSOCK sales apparatus.

21. Income from all LCCASSOCK sales and distribution activities during the three-month period, April-June 1958, amounted to DMW 1,416. This includes KUCAGE sector border sales, income from LCPAGAN for distribution services rendered, income from a single Fernschreiber advertisement, as well as income from Schlagzeug commercial sales. (Income from Schlagzeug advertisements had not yet been received at the close of the experimental period.) Schlagzeug income from sales is estimated to be DMW 786 of this total amount. Again, it should be noted that this income cannot correspond to the number of copies sold over the period (paragraph 13 above), since varying profit percentages must apply to the several distribution channels and, most important, complete income returns from June have not yet been recorded in LCCASSOCK books. With these important qualifications in mind, the rate of income from Schlagzeug sales can be charted as follows:

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
Income from <u>Schlagzeug</u> sales	21	198	567	DMW 786.00

Despite the temporary suspension of concert sales during the summer season, this increasing rate of income is expected to continue over the coming months, due particularly to steadily increasing subscription sales.

KUCAGE DISTRIBUTION:

22. As anticipated in Reference A, KUCAGE distribution of a limited number of Schlagzeug copies continued during the experimental period. Our justification for this action has already been detailed in Attachment P of Reference A and requires no further amplification at this point. We would hope, however, that this aspect of Schlagzeug commercialization--in our opinion, an important by-product of the program--will not escape addressees' attention and that it will be favorably reconsidered in the light of interim reporting on the subject (see recent LCCASSOCK reports and ESEA-15366, 5 August 1958).

23. Here we should like to note the bare statistical data on the extent and results of Schlagzeug distribution into the Soviet bloc during each of the three months from April to June 1958:

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Totals</u>
Current copies distributed immediately via West German postal channels	1,326	1,427	1,220	3,973
Back copies sold at West Berlin sector border kiosks	-	100	117	217
Back copies distributed via West German postal channels	-	-	-	-
Totals	<u>1,326</u>	<u>1,527</u>	<u>1,337</u>	<u>4,190</u>

From this it can be seen that less than half of the estimated 9,000 copies originally scheduled for KUCAGE distribution (6 3,000 monthly) were used for this purpose. Under Tab C-I of the LOCASSOCK April Activities Report (Attachment A of EGBA-51257, 16 July 1958) LOCASSOCK-I provides a detailed picture of the phasing of Schlagzeug KUCAGE distribution which accounts for the lag in reaching the anticipated level. Briefly summarized, under this phasing plan (approved by the case officer) from 1200 to 1500 copies of each new Schlagzeug issue are mailed immediately to selected Soviet bloc target addressees (correspondents and other selected targets); this distribution is shown in the first row of the above table. Back copies are simultaneously sold at LOCASSOCK's West Berlin wester border kiosks, for a price of DM-Ost 1.50 for the previous month's issue and DM-Ost 1.00 for issues from the month preceding that. These sales are shown in the second row of the above table; the 100 copies for May were April (No. 8) issues sold for DM-Ost 1.50, and the 117 copies in June included 57 April (No. 8) issues at DM-Ost 1.00 and 60 May (No. 9) issues at DM-Ost 1.50. Copies older than two months--as the sales apparatus grows to full capacity these will all be copies returned from agency and kiosk outlets--are turned over to the LOCASSOCK distribution office for continuous KUCAGE mailing via West German postal channels, thereby supplementing the limited mailings of current copies. As can be seen from the third row in the above table, no back copies were disposed of in this way during the three-month period. However, at the end of June 3,647 copies of the April (No. 8) issue were returned from commercial sales outlets and were made available for this purpose. Beginning in July, therefore, the originally anticipated level of 3,000 KUCAGE copies monthly was approximated and will be subsequently maintained.

CONCLUSIONS AND PROJECTIONS FOR THE FUTURE:

24. In interpreting the above cost and income data one point should be kept in mind: These data represent an abnormal period of trial-and-error expansion of marketing facilities and related income accruing therefrom. They do not, as such, form a basis for a straight-line projection of future costs and income. They reflect predominantly the establishment of a commercial base from which tangible results were only beginning to be derived by the end of the experimental period. Now that the base is fairly well grounded, we should expect the results therefrom to assume an increasing relevance in the over-all cost-and-income picture. As the sales apparatus reaches full operation and as sales continue to increase, the administration, production and distribution costs will in fact level off and the difference between costs and income will be correspondingly reduced. This fully-anticipated trend is more clearly shown in the Attachment C-E graphs. Here are projected our expectations of production, distribution, cost and income levels over the coming year, based on the above analysis. These represent our best estimates of the course of Schlagzeug commercialization through FY 1959. They are based primarily on the following presumptions: (1) That there will be a slight increase in costs over this period; (2) that a production level of 30,000 copies by June 1959 is feasible; and (3) that the proportion of copies sold to copies produced will increase as the distribution and sales apparatus expands and attains greater efficiency. Note: The Attachment C-E projected estimates cannot be taken as anything more than tentative, but educated, guesses as to future developments. In all cases, the projections should be interpreted as indicating a direction, not as aiming at fixed objectives by the end of FY 1959. This is especially true in the case of cost and income projections; here the direction of the trend and the relationships between depicted rates are well founded on past experience, while the absolute amounts indicated and the timing of their realization are to a great extent governed by commercial market and other factors which cannot be fully anticipated at the moment.

25. As reflected in the Attachment D projections, the following changes in individual non-salary cost categories, paralleling current expenses listed in paragraph 16 above, can be roughly anticipated over the coming year:

a. In the administrative cost category, employee benefits and expenses for office supplies would remain approximately at their present level; the cost of sales promotion would be significantly increased; and business taxes

(4% turnover tax) would rise as sales increase. If sales increase at the rate tentatively anticipated, we shall consider, possibly in the last quarter of FY 1959, the advisability of purchasing a second printing press to handle Schlagzeug specialized printing (8 pages in each issue) which is now being done at considerable expense by an outside firm. With such a press, estimated to cost about DM 30,000, the outside printing bill--which during the experimental period averaged over DM 3,000 monthly @ 12 copies--could be eliminated and the resulting monthly savings would be enough to pay for the press within a year. As noted above, whether such an investment will prove feasible will depend upon the success of Schlagzeug over the coming months. If conditions justify this expense, the cost of inventory additions in the administrative/management cost category would be increased by the price of the press, with a corresponding decrease in the cost of outside printing. This prospect, however, is not included in the Attachment D projection of administrative/management costs. The prospective level of costs in this category by June 1959 is thus put at around DM 3,500.

b. Editorial costs are also expected to rise over the coming year--due mainly to anticipated increases in payments for quality articles and source material. The prospective level of these costs by the end of FY 1959 is estimated tentatively at DM 1,500.

c. Printing and physical production costs will increase slightly, as circulation increases to 30,000 copies. The per unit cost for the second 15,000 copies will, however, be much lower than for the first 15,000 and thus preclude a significant over-all rise in this cost category. If a second printing press is purchased, as suggested above, printing costs will, of course, be immediately and drastically reduced below present levels. However, this eventuality is not included in the Attachment B graphic projection of this cost category. Printing costs are thus tentatively estimated to be around DM 3,000 by the end of FY 1959.

d. Distribution costs are expected to increase more than any other Schlagzeug cost during the coming year. The extent of this increase, however, is also the most difficult to anticipate, since it will depend largely on market opportunities and individual distribution and transportation arrangements worked out with a variety of sales outlets. We would guess roughly that, under the kind of expansion program we have projected, this cost item will reach a level of around DM 1,500 by June 1959.

26. Our two major concerns in the above projections are, naturally enough, the progressive relation of Schlagzeug costs and income over the coming year and the relation of net costs (gross costs less income) to our reduced budget. As can be seen from the Attachment B graph, income is expected to rise at a faster rate than costs. According to our hypothetical projections, as income from sales and ads increases to DM 6,000 and as gross costs level off at DM 11,500, the net cost of Schlagzeug would steadily decrease from a present level of DM 7,742 to a level of around DM 5,500. This means that, as (per Reference E) the regular KEMARK subsidy is reduced from DM 48,300 to DM 38,500 monthly by June 1959 (ignoring for the moment the possibility of extra grants for special operations during the year), the proportion of net (non-salary) cost of Schlagzeug vis-a-vis the project subsidy would decrease from a rate of 16% (DM 7,742 divided by DM 48,300) to around 14% (DM 5,500 divided by DM 38,500). In other words, with an expended cost outlay for Schlagzeug commercialization over the coming year but on the reasonable expectation that income will increase at a faster rate than costs, we can expect that income will slowly and surely overtake costs and thus progressively reduce the proportion of Schlagzeug costs covered by our subsidy--even under a reduced project budget.

27. At this point it would be difficult to project these trends beyond June 1959. For one thing, it is not possible at this stage to estimate accurately the maximum market for Schlagzeug or whether at some point the competition might try to force Schlagzeug to the wall. We can, however, venture a good guess on both these points: On the question of the maximum market, we would without hesitation raise our original estimate of 27,000 potential customers to at least 50,000. Two recent events come to mind which support this minimum estimate: the fact that over

20,000 people paid to hear Benny Goodman in Berlin alone during his recent tour; and the even more relevant report that a standard book on jazz, Das Jazzbuch, by Joachim A. MEHMENT, the leading German expert on the subject, has sold over 176,000 copies since its appearance on the market in 1953. These items, among many others derived from the experimental period, confirm our suspicion that the jazz movement in Germany and in Europe generally is not only much more intense, more pervasive and popular, but is more profitable than in the United States. On this quite practical view, Schlagzeug's market potential must be rated as excellent. On the second question--what are the chances that the competition might try to eliminate the publication from the market--we can only say that, for the foreseeable future at least, the circulation of Schlagzeug will probably not be sufficient to warrant the attention of big competitors in the field. Even with a maximum circulation of 50,000, it would still be a small-time operation compared to the mass-circulation media.

28. If we assume that the market and competition conditions are favorable, we might tentatively project the course of Schlagzeug beyond FY 1959. Under a continuing, although reduced, rate of commercial expansion during FY 1960, we would expect that the gap between gross costs and income would continue to close, probably at a faster rate than during FY 1959, since by that time we could anticipate maximum operation and efficiency of the LOCCASOCK distribution and sales apparatus. At some point in the not-too-distant future we could thus anticipate a break-even point between costs and income, that is, income would then cover gross costs and the net cost of commercialization would be reduced to zero (the net cost projection in the Attachment E graph would reach the horizontal axis). From this point on, Schlagzeug would be self-sufficient; any profits derived from it would be used to consolidate or expand its hold on the market and to absorb its own salary and other overhead. This would mean, in effect, that the KUCAGE staff of LOCCASOCK would be reduced automatically (the present roster minus those personnel whose salaries would be covered by Schlagzeug income) and that our financial support of the project could be restricted strictly to non-commercial overhead and KUCAGE production and distribution operations. We would anticipate that, under such circumstances, our regular subsidy could be reduced to a minimum to cover only LOCCASOCK non-commercial overhead costs and that the remainder of our support could then be granted in the form of irregular, but frequent, grants for special operations, mounted on this non-commercial overhead base, implemented by a flexible KUCAGE organization and staff (workshop) and accounted for via separate accounting reports.

29. In this long-range speculation we have deliberately avoided postulating interim outside assistance from KBEROPING or other possible participants in LOCCASOCK operations. We have thus ignored the increasing possibilities of CANASH and Defense Ministry purchase of LOCCASOCK services which would favorably modify our financial forecasts. Presumably negotiations with CANASH on the question of participation will get underway in the near future; there have been signs that CANOUTHFUL may at least be willing to consider this idea (see EGBA-50519, 12 June 1958). More recently LOCCASOCK-1 has reported that Identity-14, with whom he talked personally around 1 September in Bonn, is definitely interested in CANASH sponsorship of Schlagzeug as a propaganda medium in East Germany (CANASH to buy the publication in undetermined quantities for DM 1.00 for direct LOCCASOCK distribution). This deal is still in the embryonic stage, but it appears to have a good chance of materializing. As a preliminary, Identity-14, in the same talk with LOCCASOCK-1, did engage LOCCASOCK's services in a one-shot mail distribution of 800 copies of a West German technical journal, Identity-15, to East German architects, at a flat rate of DM 250 for 1,000 copies. This distribution will apparently be implemented in the near future. With respect to the Defense Ministry, LOCCASOCK-1, on the same trip to Bonn, renewed his previously close contact with Identity-16, and as a result is reportedly being considered by the latter as a regular consultant to Identity-16 on matters relating to propaganda vis-a-vis East Germany. At the same time, LOCCASOCK-4 is following up through his own Defense Ministry connections the possibility of Defense Ministry interest in Schlagzeug as a Bundeswehr informational medium. This lead was inspired by a recent West German press article in which Franz Joseph STRAUB was quoted as supporting the propagation of jazz within the Bundeswehr (a copy of the press item is

being forwarded as Attachment F for addressees' information). In all these cases the possibility of future HEGROPIE support of LCCASSOCK can be assumed, and we would not want to underestimate this potential contribution to eventual LCCASSOCK commercial cover visibility. We must, however, exclude it from consideration in the present analysis because we have no way of knowing at present the timing, extent or nature of such support.

30. We have thus limited ourselves in this paper to those factors over which, to a greater or lesser extent, we have some control. With these factors in mind, we have no hesitancy in predicting the eventual success of Schlagzeug commercialization. The rate at which this objective is achieved is admittedly subject to variable influences and conditions. But the direction of the program appears to us to be unmistakable. There is a sizable and effective demand for the publication; the net cost of the program will be reduced and eventually eliminated--even under a reduced project budget; there is no competition in sight which could conceivably disrupt the present and projected rate of commercialization; and LCCASSOCK's present personnel and talent are generally sufficient to carry the program through. On the basis of these general conclusions, we propose that Schlagzeug commercialization be continued with greater emphasis in the coming year--with a view to achieving increasing viability and, correspondingly, a decrease in the net cost of the program under a reduced LCCASSOCK budget by the end of FY 1959.

EPilogue

31. This report was completed just as Reference E arrived. In editing the final draft we have kept in mind the proposals and ideas of Reference E and have adjusted our projection of Schlagzeug commercialization within the budgetary limitations authorized therein for FY 1959. The present analysis constitutes in effect a proposal for consolidating the kind of cover mechanism envisaged by Headquarters. As can be seen from the data and projection of this program, from the priority of objectives listed in paragraph 2, and from our concluding comments in paragraphs 26-28 above, we agree that the primary objective must be to provide a permanent cover for LCCASSOCK operations. As a means to this end, we believe our continued support of Schlagzeug commercialization--to the extent required by normal competitive market conditions and by the desirable secondary objective of self-sufficiency and, ultimately, profit--is fully justified. In this sense, we do not regard the program as a speculative investment unrelated to LCCASSOCK operational purposes. It is, in our opinion, a logical and desirable investment in the long-term maintenance and use of LCCASSOCK as a KUCAGE operational instrument.

32. We should note here that the data and conclusions of this analysis have been discussed at length with LCCASSOCK-1 (before the receipt of Reference D, incidentally). He is in general agreement with the descriptions and projections we have made with regard to the eventual success of Schlagzeug commercialization, notwithstanding his original reluctance to desert the underfilled arena of political warfare for a bastard existence as a half-political, half-commercial entity. On the assumption that the opportunity to press for commercial viability would not be precluded for operational reasons and that the KUCAGE capacity of LCCASSOCK would be retained, we also broached with him the question of reorganizing the KUCAGE staff of LCCASSOCK and are presently in the process of working out an operational program along the lines envisaged in Reference E. This program, which will include our present proposals for a continuation of Schlagzeug commercialization, will be forwarded shortly, together with HOS's portion of LCCASSOCK FY 1959 project renewal data, per paragraphs 3 and 4 of Reference D.

Identities:

1. Heinz Werner Walter LUKASZ (see HEBA-51004, 10 July 1958)
2. Ina Martha SCHNEPFLER (see HEBA-40321, 27 March 1957)
3. Werner KURZ (see HEBA-50848, 7 July 1958)
4. Paul August WAGNER (see HEBA-49634, 8 May 1958)
5. Guenther Otto Rainer SCHMIDT (see HEBA-30697, 16 March 1956, and HEBA-30698, 19 March 1956)
6. Siegfried SCHMIDT (see HEBA-49211, 15 April 1958)
7. Christa Maria HAIN (see HEBA-49261, 18 April 1958)
8. Margarete KREBS (see HEBA-40321, 27 March 1957)
9. Christa BUCKEICH (see HEBA-33061, 7 June 1956)
10. Ursula PRAST (see HEBA-33061, 7 June 1956)
11. Gertrud Marianne Hildegard MEIKH (see HEBA-44986, 27 September 1957)
12. Petra Karin Heidi MEISCHTKE (see HEBA-50741, 26 June 1958)
13. Erika Herta KREIBERICH (see HEBA-50742, 26 June 1958)
14. Frau von HANBERSTEIN, Chief of the Presse und Information Dienst in the Gesamtdeutsche Ministerium
15. Werk und Zeit, Monatszeitung des Deutschen Werkbundes
16. Frau SAGNER, Chief of the Ministerial Bureau in the Defense Ministry, formerly personal referent to Kaiser in the Gesamtdeutsche Ministry.

Distribution:

- 3 - ER
- 2 - CGS

Revised Personnel List - Persons Regularly Engaged or Employed as of 1 July 1958:

	<u>Adm/Mgr</u>	<u>Edit.</u>	<u>Prod.</u>	<u>Distr.</u>	<u>(Sahl.)</u>
1. K. H. MAREBACH	DM 2,875				.10% (268)
2. M. SCHILL	750				
3. K. LINDENLOK	500				
4. M. BUKOPCEAN	412				
5. G. BECKMAN			DM 150	DM 150	
6. W. SIMMERBACHER	DM 1,500				
7. U. WEINMANN-ROFFEN		1,500			100% (1500)
8. P. BOCHEN		1,050			
9. A. JOHN	225	525			
10. H. LIKASZ		700			100% (700)
11. R. LONHARDTBO	230	347			
12. I. SCHNEFFLER	169	253			60% (253)
13. D. POHRY		325			
14. H. SCHNEIDER		750			
15. Ch. HAMANN	238	238			
16. G. FIEK	211	211			
17. S. SCHMIDT				230	100% (230)
18. R. MAREBACH (hon.)		400			25% (100)
19. W. KRÜGE (hon.)		300			25% (75)
20. E. VOSSLON			1,000		25% (250)
21. H. AURAS			558		100% (558)
22. G. KORB			594		
23. M. KORB			166	166	25% (83)
24. G. SCHMIDT				900	60% (540)
25. P. WAGNER				300	100% (300)
26. Ch. HAIN				300	100% (300)
27. Chr. BUCHERCH				270	25% (68)
28. U. PRAPT				300	25% (75)
29. G. MEIER				300	25% (75)
30. P. NEUMAYER				213	25% (53)
*31. E. KRUMREICH				260	25% (65)
32. LEUBNER/SCHINDLER	150				
TOTALS	DM 5,560	DM 8,099	DM 2,468	DM 3,389	DM 5,493

Totals: Adm/Mgr DM 5,560
 Editorial 8,099
 Production 2,468
 Distribution 3,389

Total Monthly Salaries DM 19,516

*Leaving LCCASOCK employ in near future (not included in "distribution" salaries tabulated in Attachment B breakdowns.)

Distribution:

3 - EE
 2 - COB