THE ECONOMICS OF FREE DEALS

THE INSTITUTE OF ECONOMICS
OF
THE BROOKINGS INSTITUTION

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OF

THE BROOKINGS INSTITUTION

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THE ECONOMICS OF FREE DEALS

THE ECONOMICS OF FREE DEALS

With Suggestions for Code-Making under the NRA

BY

LEVERETT S. LYON

assisted by

HELEN MAY WHEELER

WASHINGTON, D.C.

THE BROOKINGS INSTITUTION

1933

Set up and printed.
Published December, 1933.

Printed in the United States of America by
George Banta Publishing Company
Menasha, Wisconsin

Each investigation conducted under the auspices of The Brookings Institution is in a very real sense an institutional product. Before a suggested project is undertaken it is given thorough consideration, not only by the Director and the staff members of the Institute in whose field it lies, but also by the Advisory Council of The Brookings Institution, composed of the President, Institute Directors, and leading staff members. As soon as the project is approved, the investigation is placed under the supervision of a special committee consisting of the Director of the particular Institute in whose field it falls and two or more selected staff members.

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After the book is approved by the Institute for publication a digest of it is placed before the Advisory Council of The Brookings Institution. The Advisory Council does not undertake to revise or edit the manuscript, but each member is afforded an opportunity to criticize the analysis and, if so disposed, to prepare a dissenting opinion for publication in the volume.

DIRECTOR'S PREFACE

After the Institute of Economics published his *Advertising Allowances*, Mr. Lyon continued his exploration of pricing policies and the self-regulation of business through the trade practice conference. His next study concerned itself with "free deals." When this investigation was considerably advanced, the function of the trade practice conference was taken over by the code-making work of the National Recovery Administration. At about the same time the Institute of Economics undertook a comprehensive study of the NRA under the immediate direction of Mr. Lyon. The shift of function from the trade practice conference to the Recovery Administration and this new development of the Institute's program caused the free deals investigation to be merged into the NRA study. This volume is therefore presented as the first of the Institute's series of NRA publications.

The close co-operation given by trade associations and individual business concerns during the preparation of *Advertising Allowances* was continued as *The Economics of Free Deals* progressed and has resulted, as in the former case, in making available for analysis a considerable quantity of material otherwise unavailable. The author has undertaken to interpret the data in terms significant to the economist, the business man, and the government official alike.

Staff members serving with the Director on the committee which co-operated with the author in the preparation of this volume were C. O. Hardy and Paul T. Homan.

EDWIN G. NOURSE
Director

Institute of Economics
December 1933

AUTHOR'S ACKNOWLEDGMENTS

The relationship of this study to my *Advertising Allowances,* published approximately a year ago, is so close that an acknowledgment of those whose assistance has made it possible must necessarily, in considerable part, duplicate the acknowledgment given in the earlier volume. Both of the books are parts of a general study of pricing practices and policies and of business self-government undertaken with the co-operation of a number of trade associations. In this case, as in the earlier one, the acknowledgment of many individuals must be withheld because its expression would violate a confidence.

Without the full co-operation of the Executive Committee of the Grocery Trade Practice Conference the data utilized for the grocery sample would have been impossible to secure, and many points upon which the problems of deals turn might have escaped attention. The associations of this group which contributed are Associated Grocery Manufacturers of America, National Wholesale Grocers' Association of the United States, National Chain Store Association, National Food Brokers Association, and National Association of Retail Grocers.

Particular acknowledgment is due to H. R. Drackett and George D. Olds, Jr., of Associated Grocery Manufacturers, and Charles Wesley Dunn, general counsel for the association; M. L. Toulme, secretary, and Dana T. Ackerly, of counsel, for National Wholesale Grocers' Association; R. W. Lyons, executive vice-president of National Chain Store Association; and C. H. Janssen, secretary-manager of National Association of Retail Grocers. H. R. Drackett, as chairman of the Executive

Committee of the Grocery Trade Practice Conference, was a frequent and helpful adviser during most of the study.

Among many individuals who may be mentioned because their help has come through their capacity as officers of their companies or of associations, as at one time or another members of the Executive Committee of the Grocery Trade Practice Conference, or as members of committees discussing the problem and aiding in the preparation of data, are Clarence Francis, executive vice-president of General Foods Corporation and former president of Associated Grocery Manufacturers; Paul S. Willis, vice-president of Comet Rice Company and president of Associated Grocery Manufacturers; W. T. Nardin, vice-president of Pet Milk Company; C. A. Lumb, Eastern sales director of California Packing Corporation; Carl H. Schlapp, president of National Wholesale Grocers' Association; Roy L. Davidson of M. O'Connor and Company; Arjay Davies of Davies-Strauss-Stauffer Company; Sylvan L. Stix of Seeman Brothers and vice-president of National Wholesale Grocers' Association; W. B. Mackey of H. Kellogg and Sons Company; John Coode, former president of National Association of Retail Grocers; Paul Fishback, secretary of National Food Brokers Association; Harry C. Faulkner of the same association; W. J. Donald, formerly managing director of the American Management Association; and G. A. Renard of the National Association of Purchasing Agents.

While he who studies trade practice at first hand will necessarily receive a wide variety of counsel, suggestions, and advice, no responsibility for the interpretations, viewpoints, or conclusions in this study should be laid on anyone except myself.

LEVERETT S. LYON

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APPENDIXES

INTRODUCTION

The analysis of price phenomena has always occupied a central place in the work of economic students. While previously this was confined almost solely to considerations of competitive price and monopoly price, more recently there has been some exploration into that shadowy field which lies between the more complete forms of either and which in this study is called the area of semi-monopoly. To add something to the comprehension of that area is the first purpose of the study. It is hoped that this book will make some contribution to an understanding of the institutional arrangements of private enterprise and government which make semi-monopoly possible, but more particularly that it will throw light on some of the ways in which and the extent to which the rigidity of semi-monopoly prices is made more flexible than it is commonly assumed to be.

The second purpose of the study is to present and analyze data on what has long been an irritating competitive trade practice. The widely used free deal has been a method which has stirred resentment and objection, even in those industries where it is most extensively employed, and has become the subject of much trade discussion and trade regulation.

The third purpose is in some degree a combination of the other two. It is to indicate the economic and the business effects of free deals and to suggest criteria which business men, economists, and government officials may find useful in formulating trade practice agreements under governmental or other auspices or in constructing codes of fair competition under the National Recovery Administration.

CHAPTER I

SOMETHING FOR NOTHING

A free deal as a trade practice may be defined in a general way as an offer, or a giving, of something for nothing contingent upon the purchase of goods or services at a price. It is highly probable, though not demonstrable, that the deal originated in the form of an extra quantity thrown in or offered to be thrown in as a gift if a purchase should be made. The baker's dozen is proverbial, and the gift accompanying a sale was well known in primitive trade. In the free deal as it is known today, that which is purchased is called "revenue" goods or services. That which is given is called "deal" or "free" goods, services, or monetary allowances. But all free deals are the same in one respect; they involve an alleged gift, a nominal giving of something for nothing. There is assertedly *quid* without *quo*. A deal offer is usually public. It may, however, be a secret arrangement between buyer and seller. Those who are concerned with deals use the terms "free deal" and "deal" interchangeably. They will be so used in this volume.

Despite the fact that they do not come under the definition of deals, other trade practices are frequently confused with them. For example the advertising allowance, although it differs sharply in its philosophy from a deal, is sometimes mistaken for one. It should be remembered that, whatever the facts, the advertising allowance is always nominally a grant for a service, and that the free deal is always nominally a grant for no return.

Another confusion is that of the combination sale with the free deal. Manufacturers and wholesalers not infrequently offer one or more units of article *a* free with the purchase of a specified assortment of articles which may or may not include article *a*, or with a purchase of any combination of the deal-giver's products having a certain monetary value. All forms of monetary deals are also at times applied to assortments. It is easy to see how in effect there is a similarity between such deals and the combination sale in which two or more products are sold at a single price less than the regular price for all. The difference is that in the combination sale there is no declaration that some part of the combination is sold at the regular price and the balance either thrown in as a gift or offered at a deal price or with a deal discount.[1]

Deals in great variety have been devised. They are used by various types of businesses in all sorts of relationships between giver and recipient. In view of the general unfamiliarity with deals, excepting among those who use them, and the considerable confusion concerning them even in this group, more analytical discussion may well be preceded by a number of illustrations. Each case here presented varies from every other one in such char-

[1] Practically every consumer purchase is to some degree a combination sale. The purchase of food in a cafe is inseparable from the purchase of the right to use tableware, to have service, and to "enjoy" the surroundings. The protection which clothing affords cannot be purchased without paying something for style, good or bad. With shelter one buys proximity to schools, churches, stores, and other elements of a neighborhood. The purchase of an article at many retail outlets includes payment for such tangible services as free delivery and credit. "Bad debts" are an inescapable attachment to practically all purchases from vendors who give credit. The writer has an acquaintance who alleges that he avoids his obligations to retailers to justify the bad debts account. "Someone," he asserts, "must be the bad debts." This is a novel view of a social function, or at least a novel admission.

A Publisher's Free Deal[a]

NINE PLAYS

BY EUGENE O'NEILL

FREE— FOR YOUR LIBRARY

—to those who join the Book-of-the-Month Club at this time . . . it costs nothing to belong and you do not have to take a book every month

WE suggest that you send the postcard below to get full information as to what the Book-of-the-Month Club does for book-readers, and then decide once for all whether or not you want to join. Are you aware, for instance, *that as a member you are not obliged to take a book every month;* nor are you ever obliged to take the specific book-of-the-month chosen by the judges. You may buy it or not, as you please, after reading the judges' pre-publication report about it. *Nor do you have to pay any fixed sum to be a member of the*

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- LAZARUS LAUGHED
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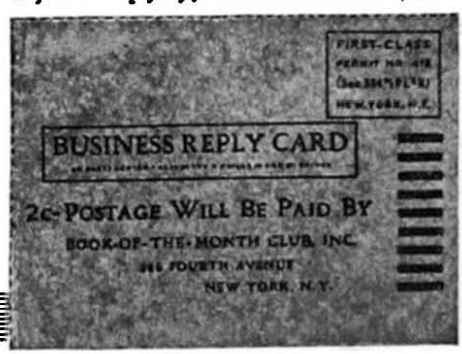

[a] Reproduced with the permission of an officer of the Book-of-the-Month Club, Inc.

acteristics as the type of giver, recipient, administrative method, or gift.[2]

In the fall of 1932 a manufacturer of medicine announced that to each retailer who would purchase a dozen units of Blud-Life he would, upon receipt of a jobber's invoice, send a check for one dollar. No retailer would be allowed to purchase more than 24 dozen in the twelve months beginning September 1, or more than 8 dozen in any one month.

A toilet goods manufacturer offers six classes of deals to wholesale buyers in the sale of one of his nationally advertised brands of soap. He offers three types of gifts—additional units of the same item as that purchased, units of other goods of his own manufacture, and cash rebates—each as deals based on purchases and also as deals based on sales of the soap by the wholesale buyer.

As part of a special drive a manufacturer of vacuum valves gives contractors their selection of a wide variety of personal and household merchandise as premiums in proportion to the volume of their purchases. A contractor may order his first premium merchandise any time after he has accumulated 900 credits with which he has been credited at the rate of six per dollar of purchases. Before credits are received the contractor is required to furnish evidence of his purchases by sending the wholesaler's invoices to the manufacturer.

Beginning in June 1932 and continuing until sometime after November 1932, the Bristol-Myers Company, manufacturers of Ipana toothpaste and Ingram's shaving cream, inserted a certificate in each package of a half-dozen units of either of these products. Each retailer who returned to the manufacturer the certificates contained in 25 packages of the toothpaste and 5 packages of the shaving cream received a check equal to nearly 2 per cent of the combined purchase price of the articles.

A grocery manufacturer offers consumers one unit of his hand cleanser with the purchase from a retailer of one unit of his kitchen cleanser. The two items, banded together, form a set which is sold for cash and usually delivered to retailers by the manufacturer's specialty men. Each retailer may make only

[2] The descriptions given below are based upon actual deal offers, answers to the author's questionnaires, and trade journal articles.

A Local Deal Offer by a Grocery Manufacturer[a]

GF

GENERAL FOODS

SALES COMPANY, INC.

IMPORTANT

ANNOUNCEMENT

TO OUR CUSTOMERS:

We are pleased to announce the following deal on JELL-O EFFECTIVE MONDAY, OCTOBER 16th, 1931.

1. PRODUCT:

Jell-O (Commercial size) 36 -3-1/4 ounce packages $2.50

2. DEAL SPECIFICATIONS:

A. Basis - One free with the purchase of ten cases, that is: 11 cases billed at $2.

B. Minimum shipment - eleven cases.

C. Value of free goods to be deducted from the face of the invoice.

D. Floor Stock Protection: For customers whose stock was not bought on the previous Jell-O Deal, we will protect them by shipping on the next order one case free for every ten in stock. For customers who bought on previous deal, we will not protect their stock.

For your convenience, in order that you may give us information as to the number of cases of Jell-O you have on hand, which you have not purchased on our previous Jell-O Deal, we are attaching a form which we will appreciate your filling in and returning to this office promptly. You will note we are asking that your stock of Jell-O be counted as of the close of business on Saturday, October 17th, 1931.

3. EFFECTIVE:

October 19th, 1931 and is SUBJECT TO WITHDRAWAL WITHOUT NOTICE.

We will appreciate your full co-operation in merchandising this deal to the best advantage.

Yours very truly,

GENERAL FOODS SALES COMPANY, INC.

District Sales Manager

Minute Tapioca

[a] Reproduced through the courtesy of an officer of General Foods Sales Company, Inc.

A COUPON TO BE REDEEMED BY A PREMIUM COMPANY*

* Special permission to reproduce this coupon was granted by the legal counsel of the United Profit-Sharing Corporation.

A DEAL ON A TOBACCO PRODUCT[a]

Circular No. 1845

P. Lorillard Company
INCORPORATED
TOBACCO-CIGARETTES-CIGARS
119 West 40th Street
New York

March 21, 1932

EXTRA PROFIT FOR RETAIL DEALERS

FREE — 2 — 10s Packages BETWEEN THE ACTS

WITH

200 BETWEEN THE ACTS

To Our Jobbing Customers:

Effective this date and for a limited time only, we will pack,

FREE — 2 — 10s Packages BETWEEN THE ACTS

in each

200s Carton BETWEEN THE ACTS.

WE WILL NOT "COVER" ANY JOBBERS' STOCKS WITH THE GRATIS PROVIDED IN THE ABOVE OFFER.

All orders are subject to acceptance by our New York Office, and if accepted will be filled at prices ruling on day of shipment.

No representative or employee of this Company has authority to change any circular, letter or price list issued by this Company.

Very respectfully,

P. Lorillard Company

[a] Reproduced with the permission of an officer of the company.

one purchase of not over one dozen sets. Wholesalers occasionally deliver the goods and are always allowed their regular discount on the sale.

A manufacturer encloses in each can of coffee a certificate worth ten cents in the purchase of any article listed in a catalogue which he distributes. Certificates may be used for half of the listed price of the premium articles, cash being used to make up the balance.

Temporary offers of free house furnishings have been found to be effective inducements to the purchase of the manufactured houses of the Gordon-VanTine Company. When the prospective buyer has indicated the house in which he is interested, the company tells him the value of the free goods being offered with that house and furnishes him with an illustrated catalogue of the items available under the offer.

With each dozen of one product of a drug manufacturer purchased by a drug retailer, one-sixth dozen of another of his products and one-half dozen of a third product, also of his own manufacture, were given free. The offer began in February and expired at the end of March, during which time no one retailer was permitted to purchase more than three dozen units under the deal offer. Free goods were furnished directly by the manufacturer, though purchases of the revenue goods were made from wholesalers.

Two guest tickets to Loew's Fox Theater have been offered with each paid-in-advance order for seven or more want-ad insertions in the *Washington Post*.

As a special sale on Thursday, Friday, and Saturday of a certain week, at the Indianapolis, Ind., store of Sears, Roebuck and Company, a $3.25 guaranteed Ingersoll watch was given with each purchase of a $6.95 boy's suit.

B. Cohen and Sons, a retail credit jeweler of Norriston, Pa., conducts a "give-away sale" each fall. This is a store-wide sale lasting for one month in which some special premium is offered. A recent offer was an electric mantel clock given with any $5.00 purchase.

A grocery wholesaler offers a "beautiful clock" as a premium to retailers with each purchase of five cases of his private brand of canned foods.

DEALS FOR NOVEMBER

●

All Deals Subject to Change Without Notice

The following list of "deals" are those reported direct from manufacturer to McKesson houses named on last page. It has been compiled by McKesson & Robbins, Inc., who believe the information to be correct, but who do not accept responsibility for discontinued "deals" or errors or omissions. All deals subject to territorial restrictions.

New Deals added since last publication listed in bold face type.

◆ Free goods supplied by wholesaler.
● Free goods or allowances sent direct by manufacturer.
(P) Meaning permanent or in effect until further notice.
(L) Meaning for limited period only. See expiration date.

Note to manufacturers: If your free deals are not listed on this or other deal pages, please forward information to arrive in our hands promptly, so that they may appear in the December issue. State when deals expire and how free goods are to be handled. No charge is made for listing deals National in character.

(P) ◆ **ANCHOR PAIN EXPELLER**
With each dozen Pain Expeller either 35c or 70c size—1/12 dozen size purchased FREE.

(P) ● **BATHASWEET**
With each doz. $.28 size—1/12 doz. $.28 size *free*
With each doz. .55 size—1/24 doz. .55 size *free*
With each doz. 1.10 size—1/12 doz. 1.10 size *free*
With each doz. 1.65 size—1/12 doz. 1.65 size *free*

(P) ◆ BURMA SHAVE

With each dozen purchased (except 10c size)—1/12 dozen size purchased FREE.

(P) CALOTABS

$10.00 Orders—5% cash rebate sent direct by manufacturer upon receipt of original or duplicate invoice showing purchase.

(P) ● CAPUDINE

$20.00 Assorted—7% bonus from manufacturer by check mailed direct to retailer upon receipt of wholesaler's invoice showing purchase.

(P) ◆ CEDARFLAXE SPECIAL DEAL.....Each $4.50

Contents—	Cost	Retail
6 dozen 10c Bag	$4.50	$7.20
½ dozen 10c Bag	FREE	.60
Cost—$4.50	Retail Value—$7.80	

(L) ◆ CHAINE D'OR ASSORTMENT....Each $10.20

New line of Profit Protected Imported Cosmetics

Contents—	Cost	Retail
6 FACE POWDER, $1.00 (2 ea. of Nat.Rach.andRach.2)	$3.60	$6.00
6 EXTRACTS, $1.00 (2 ea. of Chaine D'Or, Avant, L'Este and 1 ea. of Oeillette Fane, and Chypre)	3.60	6.00
3 LIPSTICK, $1.00 (1 ea. of Blond, Brunette, and Metamorphose)	1.80	3.00
2 PASTE ROUGE, $1.00 (1 ea. Medium and Dark)	1.20	2.00
1 EXTRACT CHAINE D'OR	FREE	2.50

Dealers Cost—$10.20 Retail Value—$19.50

Expires December 31, 1932

Cost—$6.90 Retail—$12.00

CONTI SHAMPOO DEAL

DEAL NO. 6 .....Each $12.75

Contents—	Cost	Retail
3 doz. Conti Shampoo 4 oz. (.50)	$12.75	$18.00
⅓ doz. Conti Shampoo 4 oz. (.50)	FREE	2.00
Cost—$12.75	Retail—$20.00	

The above deals are not effective in Manhattan, Brooklyn, Yonkers and Newark.

(L) ◆ COTY 1932 HOLIDAY ASSORTMENT..Ea. 25.00

Contains:
19—¼ oz. Extracts
5—½ oz. Extracts
1— 1 oz. Extracts
1—Wood & Glass Counter Display FREE.
Retail Value—$36.65

(P) ● CREOMULSION

A Bonus Check for $1.00, direct from manufacturer on 1 dozen orders. Check sent only upon receipt of wholesaler's invoice.
A Bonus Check for $2.00 plus 5% discount allowed by wholesaler on purchase of 2 dozen.

(L) ◆ CUTEX HOLIDAY DEAL .....Each $13.20

Contents:
⅓ doz. No. 16 Compact Sets $3.50
½ doz. No. 19 5-Minute Sets 6.00
¼ doz. No. 17 Traveling Sets 4.50
⅓ doz. No. 25 Marquise Set 2.50
⅓ doz. No. 18 Boudoir Set 3.50
1 only. Metal Dsply. Stand ..... FREE
Retail Value $20.00

Expires December 24, 1932

[*] Special permission to reproduce these sections from pages of *Selling and Service*, November 1932, was received from the H. K. Stroud Service Corporation, publishers of the magazine.

An Offer in Which Premium Goods and Revenue Goods are Manufactured by the Same Company*

GF

GENERAL FOODS

SALES COMPANY, INC.

March 9th,
1932

[redacted]
[redacted]
[redacted]

[redacted]

To Our Customers:-

Effective March 7th, and subject to withdrawal without notice, we are instituting a very attractive deal on [redacted].

According to the terms of the offer, every case of [redacted] shipped to you, at the regular list price of $1.80, will contain, in addition to the usual 24 packages of plain salt, 3 CARTONS OF [redacted].

This is, of course, equivalent to [redacted].

Our usual policy of full floor stock protection will apply and free goods in the amount due you on adjustment of your stock to the new deal basis will be shipped with your first order. We are using the count taken at the termination of our last Salt deal on February 26th as the basis for determining the adjustment to which you are entitled.

In view of the fact that this deal is subject to withdrawal without notice, we know you will want to lose no time in ordering out a stock of [redacted] sufficient to take care of your requirements for a reasonable period.

Very truly yours,

District Sales Manager

---

* Reproduced with the consent of an officer of General Foods Sales Company, Inc.

These illustrations, together with the more numerous examples given in Appendix A, show that deals are utilized by all classes of sellers in an amazing variety of ways. Purveyors of literary fodder for the intellectual as well as distributors of the humble grocery item or the dubious patent medicine find them effective.

General as is the use of free deals, it appears that heretofore no effort has been made to determine their outstanding characteristics or to classify them. One finds in the trade many expressions which have arisen from individual efforts to indicate a certain type of deal by referring to one of its particular attributes. The nature of the gift, the purpose to be accomplished by the deal, and the method employed in administering it have all been stressed. For instance, one finds such terms as deal, premium deal, free deal, free offer, discount deal, special allowance, special rebate, special retail offer, buying deal, contract deal, prizes, stock dividend, extra profit, double-value offer, bonus, combination deal, coupon offer, postal-card deal, extra rebate, count-and-re-count deal, merchandise deal, advertising deal, trade deal, quantity deal, introductory deal, sampling plan, special temporary deal, Christmas offer, fall campaign, and spring deal.

Regardless of nomenclature, however, every free deal involves six salient factors: a giver; a recipient; a basis for the offer (either purchases or sales by the recipient); a gift; dimensions of time, quantity, area, and value; and the presence or absence of familiarity with the revenue product or service. That any one of these common characteristics may be used as a basis for classifying all free deals will be apparent from the following discussion.

The giver. While perhaps manufacturers are the most common givers of deals, distributors and service agencies

also use them.[8] Among distributors deals are frequently offered by wholesalers, retailer-owned wholesalers, corporate chains, voluntary chains, department stores, mail-order houses, and independent retailers. On this basis, therefore, deals may be classified as manufacturer deals, distributor deals, and service-agency deals. It is advantageous in many cases to specify the particular type of distributor or service-agency deal by sub-classifying it as a wholesaler deal, a chain-store deal, a retailer deal, a bank deal, a service-station deal, and so on.

The recipient. Any buyer may be a recipient. Deals may accordingly be designated as deals to industrial buyers, deals to wholesale buyers, deals to retail buyers, and deals to consumer buyers. These classes may in turn be subdivided according to types of buyers within each group.

The basis for the offer. Deals may be offered to buyers on the basis of either purchases or sales to be made by them within an announced period. The first of these may be called buying deals, the second selling deals.

Buying deals may be further divided into direct-buying deals and indirect-buying deals. The former are those which are given with purchases made directly from the concern giving the deal. Such purchases may be made by any class of buyer from any class of seller. Manufacturers, for instance, give direct-buying deals to such buyers as wholesale, chain, or independent retail distributors, or even to other manufacturers or consumers. Such deals may be called manufacturer direct-buying deals. The same type of deal when made by a distributor instead of a manufacturer may be spoken of as a distributor direct-buying deal, or, more specifically,

[8] A deal offer is usually the plan of a particular company but sometimes a group of companies co-operate in making one.

as a wholesaler (mail-order, or other distributor) direct-buying deal.

Indirect-buying deals are those which are given, not to the direct-buying customers of the deal-giver but to those who purchase the deal-giver's products through some distributor. This type of deal is widely used in the grocery and drug industries, but so far as the writer is aware has never heretofore been defined or definitely named. The name here given has at least the merit of suggesting the practices involved.[4] Such deals are commonly given by manufacturers to retailers on the basis of their purchases from wholesalers and also by both manufacturers and wholesalers to consumers on the basis of consumers' purchases from retailers.

When using indirect-buying deals the giver must have some means of assuring himself that the recipient of the deal is the one whom he intended to be the recipient. There are several ways of doing this, one being by inclusion of the free goods in the package of revenue goods. For example, a manufacturer may include an extra package in a case of goods to be sold to retailers by his wholesaler customers. The deal-giver may, on the other hand, rely on the report of the intervening distributor, or he may require either the distributor or the recipient to return copies of invoices as evidence of sales. Still a fourth method, and perhaps the most common, is the use of coupons or other evidence of purchase, either included in the package or distributed previous to or at the time of purchase. For example, coupons which when presented as evidence of purchase will secure deal goods, services, or monetary considerations from the deal-

[4] The term "indirect-buying deal" should not be confused with the term "indirect deal," which is sometimes used to designate deals in which the gift is not received simultaneously with the purchase.

giver, or from his designated agent, are often distributed by general advertising or by house-to-house distribution. When the deal procedure involves coupon distribution in any of the ways just mentioned, some payment, usually considerably less than the regular price, may be involved. In such cases the deal may properly be referred to as an indirect-buying-coupon-monetary deal.

As part of a single plan a manufacturer or wholesaler may carry on deals for successive types of buyers. For instance, a manufacturer may have a plan which includes a deal for wholesalers and the wholesalers' retailer customers, or a plan which includes deals for wholesalers, the wholesalers' retailer customers, and the retailers' consumer customers. If the deal is for wholesalers and retailers, a certain proportion of the number of cases of the product ordered by the wholesaler may be given to him as a deal. In such instances all cases may be specially packaged so as to contain the regular quantity plus the deal goods. These cases are sold to the retailer at the regular price. Thus, if a manufacturer is offering a deal of two packages free with twelve, he will pack fourteen in a case to be delivered by the wholesaler to the retailer at the price of twelve. If such a plan also includes the consumer, coupons for the consumer may be included within the packages, premiums may be sent to the retailer for distribution, or some other device may be employed to make sure that the consumer receives the part of the deal planned for him. Wholesalers, as part of a single plan, may have deals which involve both their retailer customers and the retailers' consumer customers.

Selling deals are those given to distributors (usually by manufacturers to wholesalers) on the basis of sales made by the distributors. So far as the writer knows, the

term "selling deals" has not before been used. In these deals the distributor cannot receive the benefit of the deal until he has re-sold the goods. As in the case of indirect-buying deals, one who uses selling deals must receive some evidence of compliance with the terms of the deal. He may rely upon a report from the distributor, or he may require copies of invoices in evidence of distributor sales. A common practice is for the vendor to take an inventory of the revenue goods in the possession of each customer at the beginning and at the end of the deal period. The prevalence of this method of determining vendee's sales during a deal period has caused deals based on sales to be commonly called, in the trade, count–and–re-count deals.[5] If a manufacturer puts on a selling deal for wholesalers, giving goods the same as those purchased and using the count–and–re-count method of checking, the deal might properly be distinguished from others by calling it a manufacturer same–goods–selling-count–and–re-count deal to wholesalers.

The gift. Deals may involve gifts of goods, services, monetary allowances, or combinations of these. In goods deals sometimes the goods given are of the same kind as those purchased. When this is the case they may be spoken of as same-goods deals.[6]

Ordinarily such deals provide for an additional quantity of goods identical with those purchased, such as one

[5] Both indirect-buying deals and selling deals are necessarily open to the objection that they may offer opportunity for deception on the part of the buyer. Inaccurate statements may be given, and declarations are not unheard in the trade that when stock counts are made by the vendor the vendee may move his goods to special warehouses toward the end of the deal period to give the appearance of greater than actual sales.

[6] In trade circles these are often referred to as free-goods deals, but this term is misleading, since goods given which differ from the revenue goods are also free goods.

case free with the purchase of ten cases, or one-twelfth of a dozen free with eleven-twelfths purchased.[7] Sometimes, however, the free goods, though essentially the same as the revenue goods, differ from them with regard to style of package, size of unit, color, or some other superficial matter.

When free goods differ essentially from revenue goods, deals may be called premium-goods deals.[8] Any form of goods given with the purchase of services may also be classed as premium goods. These deals take several forms. A seller may give goods closely related to the product or service offered for sale, as when kitchen utensils are offered as premiums with the purchase of food products, display racks with the purchase of a commodity to be displayed, or clothing containers with the purchase of dry-cleaning services. Those deals which offer an additional product, related to the one purchased chiefly by the fact that it is made by the same manufacturer, as is the case when toilet soap is offered as a deal with lard, may perhaps be regarded as related-premium-goods deals. On the other hand, the premium goods may be entirely unrelated to the revenue goods or services, as when toys are given with breakfast food, umbrellas with gum, or tableware with garage service.

[7] This form of deal is very similar to and is often confused with a quantity discount if the number of units required in order to obtain the free goods is larger than the usual purchase. There are some who think only of identical same-goods deals when they use the term "free deal."

[8] In administering premium deals coupons or other tokens are sometimes given with the purchase and later redeemed with premium goods or services, while at other times the free goods or services are distributed at the time of purchase. This variety of practice has led to a fairly common division of premium-giving into the token system and the direct system, based on the administrative technique employed. A third method of administering in which a buyer secures his premium as a reward for future purchases which he promises to make leads to the term "advanced premium."

There are certain border-line cases which defy satisfactory determination of the question whether or not a particular item, different from the item or items purchased, constitutes a premium. For example, if the gift is of quite insignificant value, some would classify it as an advertising novelty only, not as a premium. However, if a gift is made contingent upon a purchase and is intended to have any value whatever to the purchaser outside of advertising information, it seems to be properly classifiable as premium goods. Similarly, the container of goods, or part of such container, often has a special usefulness to the buyer. Should it be considered as part of the goods purchased or as premium goods? Here it seems that if the container is given some temporary feature which is offered as an addition to the goods it may properly be considered a premium, but if such a feature is a permanent attribute of the package, it may not properly be so called. Either case draws close to the combination sale already discussed.

When a seller offers one of his products free with the purchase of an assortment of his products which includes the product given free, the free goods are both same goods and premium goods. (See deal on an assortment, Appendix A, page 184). This may be called a combination same-and-premium-goods deal. Deals in which two gifts are offered, one being of same goods and the other of premium goods, also come within this class.

Sellers frequently use various forms of deals offering services rather than goods with purchases of either goods or services. They may give free service the same as the revenue service, or same-service deals; or they may give service different from that purchased, or premium-service deals. The deal which gives a service with the purchase of goods may also be termed a premium-service

deal. The free service may be either related or unrelated to the revenue service or goods.

With the purchase of either goods or service, deals may also be given in the form of monetary considerations. These are, it may be argued, not properly called deals. It may be said that they are price cuts and price cuts only. Certain it is that monetary deals are in the nature of things reducible to a common denominator, that is, to an amount which can be subtracted from a price which may be regarded as regular. In view of this fact various forms of monetary deals have so much in common with each other and with arrangements which are not deals that it is impossible to differentiate them excepting in terms of *the way in which they are stated.*

Yet business men do frequently announce as deals offers in which the gift contingent upon a purchase is in monetary form. (See, for example, pages 5, 9, and 11.) The so-called rebate deal, which may be offered either to consumers or to other customers, is in common use. It requires the purchaser to pay the regular price for one or more articles but makes it possible for him to secure a rebate which may be either cash or a credit memorandum.

A second kind of monetary deal is the discount deal. This may be a discount on a certain article contingent only upon its purchase, in which form it may be called a single-purchase-discount deal.[a] On the other hand a discount may be offered on an additional unit or units of an article contingent upon the purchase of one or more units at the regular price, or on one or more units of a different article contingent upon a purchase of one or more specified articles at the regular price. Either of

[a] Not to be confused with a cash discount; that is, a discount for prompt payment.

these latter forms may be referred to as a multiple-purchase-discount deal.

Most difficult to think of as a deal, yet frequently so announced, is the so-called price-reduction deal. Like the discount deal, it may take one of two forms. It may be a single-purchase-price-reduction or a multiple-purchase-price-reduction deal. In the former case it is simply a temporary offer of specified goods at a lower than specified regular price, announced as a deal. In the second case it is an offer of a lower price on added units of the same goods or upon units of other goods, in either case contingent upon the purchase of specified goods at the regular price.[10] It is certainly arguable that in its simpler form this type of deal is merely a temporary price cut and a deal only in name. But in its second form it appears to fit as readily into the formula of something for nothing or something thrown in with a regular purchase as does any other type of deal. The example of multiple-purchase-same-goods-price-reduction deals with which consumers are most familiar is the simple so-called one-cent sale.

Gifts of goods, services, or monetary allowances given as deals sometimes accompany the purchase. At other times they are procured later, perhaps by the presentation of coupons. In the latter case they may be obtained through the same channels as were the revenue goods, directly from the deal-giver, or from an outside agency such as a premium company operating "premium parlors."

Dimensions. The time during which a deal is offered,

[10] Multiple-purchase-different-goods-price-reduction deals are termed purchase-privilege plans by one trade writer. Editorial, "Combination Sales vs. Purchase Privilege Plan," *Novelty News*, January 1933, Vol. LVI, p. 17.

the sales area to which it applies, the quantities which may be purchased under its terms, and the value of its gift may all be classed as its dimensions.

Time, as a basis for classifying deals, has two aspects: duration and occasion. There are temporary and continuous deals. The great majority exist for a comparatively short period. Some apply only to a single purchase. Four and six weeks' deals are common.[11] But deals are not always temporary. Premium deals, though frequently used for brief periods, are often as continuous as any part of the price policy. Nor are same-goods deals, service deals, or monetary deals temporary in all cases. There are instances in the grocery trade, for example in the sale of shredded cocoanut, where, according to one manufacturer, a deal is always a part of the price quotation.[12]

In the case of temporary deals there must be some decision as to when they shall be "put on" and "taken off." Shall a deal be occasioned by the regular recurrence of some period, such as a season, or shall each deal be the spontaneous outgrowth of a particular situation? In short, shall temporary deals be regular or opportunistic deals?

The quantity of goods or services which may be purchased on a deal basis may be limited or unlimited. It may be limited in terms of the minimum single purchase or sale to which a deal applies or the maximum aggregate quantity which may be purchased on the deal basis.

A seller may make a deal covering the entire area in which he distributes, whether it be the whole country or only a portion of it. In either case it may, perhaps, be

[11] For data on length of deal periods, see pp. 98-112.

[12] The origin of this practice, or why a concession is continued in this form rather than as a price change, has not been disclosed.

called a national deal in the sense that the territory to which it applies includes all of the vendor's customers. It is not uncommon to experiment with a deal in one locality, and in the event of success there to apply it to others or to the deal-giver's entire territory. Thus a local deal may be "on" for one product in one district and for another product in a second district. The administration of deals is complicated by the various areas to which they are applied.

The value of a deal gift when considered as a deal dimension is the monetary value of the deal goods, services, or monetary allowances in proportion to the monetary value of the revenue goods or services. That is, if a price cut were to be substituted for the deal offer, what would be an equivalent discount?

Familiarity of the revenue product or service. A deal may involve a product or service which is new or unfamiliar, or well-known and acceptable to the buying public. Manufacturers and distributors have a rough and ready way of speaking about introductory deals and deals on established products.

The best-defined example of an introductory deal is one in which a new or unfamiliar product or service is offered for sale in a given territory at the intended standard price (or the standard price already existing in other territories on this product), but with a deal. Deals on established goods or services in established territories are, in the strictest sense, those which are planned primarily to influence the purchases of those who have already been customers for the product.

There are some types of cases, however, which might be put in either of these classes and which deal-users do, as a matter of fact, think of first one way and then another. A deal which is sometimes placed in one class and

CLASSIFICATION OF DEALS ACCORDING

I. THE GIVER
- A. Manufacturer deals
- B. Distributor deals
- C. Service-agency deals
- D. Other seller deals

II. THE RECIPIENT
- A. Deals to industrial buyers
- B. Deals to wholesale buyers
- C. Deals to retail buyers
- D. Deals to consumer buyers

III. THE BASIS FOR THE OFFER
- A. Buying deals
- B. Selling deals

TO EACH OF SIX COMMON FACTORS

1. Wholesaler deals
2. Retailer-owned wholesaler deals
3. Corporate-chain deals
4. Voluntary-chain deals
5. Mail-order-house deals
6. Department-store deals
7. Independent-retailer deals

1. Deals to wholesalers
2. Deals to retailer-owned wholesalers
3. Deals to corporate chains
4. Deals to voluntary chains
5. Deals to mail-order houses
6. Deals to department stores

1. Direct-buying deals
2. Indirect-buying deals
   a. Administered by package enclosure
   b. Administered by reports
   c. Administered by return of invoices
   d. Administered by return of coupons

1. Administered by reports
2. Administered by return of invoices
3. Administered by count and recount

CLASSIFICATION OF DEALS ACCORDING

IV. THE GIFT	A. Goods deals[a] B. Service deals C. Monetary deals
V. DIMENSIONS	A. Time B. Quantity[b] C. Area D. Value[c]
VI. FAMILIARITY OF REVENUE PRODUCT OR SERVICE	A. Introductory deals (deals on unfamiliar products) B. Deals on established products

[a] Gift may be related or unrelated to purchase. [b] Purchases may be of
[c] On this basis deals could be described in such terms as 10-per-cent

TO EACH OF SIX COMMON FACTORS *(Continued)*

1. Same-goods deals	a. Identical goods b. Same goods with superficial differences
2. Premium-goods deals	a. Premium goods with purchase of goods[a] b. Premium goods with purchase of service[a]
1. Same-service deals	
2. Premium-service deals	a. Premium service with purchase of service[a] b. Premium service with purchase of goods[a]
1. Rebate deals	a. Cash-rebate deals b. Credit-memorandum deals
2. Discount deals	a. Single purchase b. Multiple purchase[b]
3. Price-reduction deals	a. Single purchase b. Multiple purchase[b]
1. Duration	a. Temporary deals b. Continuous deals
2. Occasion	a. Regular deals b. Opportunistic deals
1. Limited-quantity deals 2. Unlimited-quantity deals	a. Minima limitations b. Maxima limitations
1. Local deals 2. National (unrestricted territory) deals	

same or different goods or services.
deals, 17-per-cent deals, 50-per-cent deals.

sometimes in the other is that in which the sale of established products or services is accompanied by premium goods or services which the vendor desires to add to his line in the territory where the deal is applied. This plan is used as a way of introducing the premium goods or services. The purchase, however, is of established goods or services. It appears, therefore, to be accurate to regard such deals as deals on established products even though those using them often speak of them as introductory deals.

Even where deals are used on established goods or services in established territories, the effect may be to introduce a product or service to purchasers in established territories who have previously refrained from buying. So far as these purchasers are concerned, therefore, these deals may be thought of as introductory. Among deal-users, however, and in this discussion, they are regarded as deals on established products in established territories.

CHAPTER II

SPECIAL CONSIDERATION OF PREMIUMS

The classification in the preceding chapter of premiums as deals and of premium-giving as deal-giving will seem somewhat novel to those who have been accustomed to thinking of premiums in a separate category. Indeed, in certain respects, such as their legal history, certain forms of them are in a class by themselves. Premiums have been regarded in various ways by those involved in their use. That catholic term "advertising," with the convenient elasticity which enables it to cover every form of trade promotion, is very commonly used to include premium-giving in all of its forms.[1] This practice may be justified where the word "premium" is applied to gifts distributed to attract the attention and possible custom of prospective buyers, but it can no more be applied to premiums as discussed in this study than it can to other types of deals.

The term "premium" is sometimes used to designate gifts, prizes, or bonuses given by manufacturers or wholesalers to their own salesmen or to those of their customers. In these cases it denotes some supplement to wages or salaries and, under certain circumstances, bribery. Such a use of the term is also entirely different from that employed in this discussion of deals as supplements to purchases.

[1] The trade organization of manufacturers who use premiums is known as the Manufacturers' "Merchandise Advertising" Association. Frank H. Waggoner, editor of *Novelty News*, refers to premiums as "one of the recognized forms of advertising." See *Spice Mill*, August 1930, Vol. LIII, pp. 1320-22.

A premium given as part of a merchandising transaction is obviously a deal gift, a something "thrown in." In the words of the court in *Rast* v. *Van Deman & Lewis*, "all of the schemes have a common character—something is given besides that which is or is supposed to be the immediate incentive to the transaction of sale and purchase. . . . They rely upon something else than the article sold. They tempt by a promise of a value greater than that article and apparently not represented in its price, and it hence may be thought that thus by an appeal to cupidity lure to improvidence."[2]

Premiums in one form or another have a long history in trade. There seems to be no point at which one can mark the beginning of the practice of throwing in something extra with a purchase. It is declared that this practice runs back to the earliest days of peaceful and persuasive trade.[3] It is extensive in other countries as well as in the United States.[4]

Although premiums in various forms had long been used in the United States, a noticeable development of their use came after 1900. It was said in 1905: "Within

[2] *Rast* v. *Van Deman & Lewis*, 240 U. S. 360, 365.

[3] Illustrations from trade in Assyria, Palestine, Athens, Pompeii, and Rome are cited in Henry S. Bunting, *The Premium System of Forcing Sales*, pp. 10-11.

[4] For discussions of the use of premiums in 25 different countries see Albrecht R. Sommer, "Premium Advertising," *Harvard Business Review*, January 1932, Vol. X, pp. 203-12; "How Premiums Build Sales," *American Exporter*, December 1931, Vol. CIX, pp. 23, 69-72 (unsigned); Charles W. Stokes, "Premium Schemes Flourish in Britain" and "How British Newspapers Build Circulation by 'Competitions,'" *Advertising and Selling*, 1931, Vol. XVI, Apr. 1, pp. 30, 57-58, and Apr. 15, pp. 32, 54; "Premium War," *Business Week*, Apr. 12, 1933, pp. 20-21 (unsigned); McDonough Russell, "John Bull Goes Free Gift Crazy," *Printers' Ink*, May 18, 1933, Vol. CLXIII, pp. 58-59; and John H. Morgan, "Giving of Premiums Forbidden in Germany," *Commerce Reports*, Apr. 11, 1932, No. 15, p. 113.

the last year or two the 'premium craze,' like a moral epidemic, has spread all over the country. Scarcely a middle-class or wage-worker's family may be found, at least east of the Mississippi, where some kind of coupons are not saved and some kind of a free prize not expected."[5] In this early period the extensive use of premiums was in the form of manufacturer premiums for the consumer. It was closely related to the development of branding and to the advertising of manufacturers' brands to the consumer. Experimenting with the extensive and highly speculative method of advertising of the early 1900's, manufacturers were not loath to seek and to believe they found[6] in premiums an economical substitute for advertising space. Thus premiums have come to furnish a device by which the manufacturer can arouse and maintain consumer interest in his goods.[7]

A prize system was popular in the earlier uses of premiums in American merchandising. It was not uncommon to offer with the purchase of a pound of coffee or tea a prize the value of which was represented to be greater than the price paid for the purchased product. Another plan was to put a piece of money, perhaps a dollar bill, into one of every hundred packages of a product; and another plan, perhaps even more common, was to place one letter necessary to spell the name of the firm or its product in each package of goods manufactured and to offer a prize of value for the letters which spelled the complete name. The chances of the buyer in such schemes were not as good as he may have

[5] I. M. Rubinow, "Premiums in Retail Trade," *Journal of Political Economy*, September 1905, Vol. XIII, pp. 574-86.

[6] The same.

[7] For further discussion of this point and the significance of all deals in relation to branded merchandise see Chap. IX.

anticipated, as the method was to put one of the necessary letters in only one of some 500 packages.[8]

A second development in premium-giving was the trading-stamp system, of which the premium company is the center. It prints and sells to retailers (possibly also to other sellers) coupons known as trading stamps, which can be accumulated and exchanged for premiums furnished by the premium company and usually displayed in premium catalogues distributed by the retailers using the stamps. What goods are purchased is of no consequence so long as they are purchased from a retailer who distributes the stamps. As the stamps are sold to retailers of various kinds of goods it is possible for the buyer to accumulate them with a large proportion of his purchases and thus to secure in a comparatively brief space of time a much more valuable premium than is possible under the manufacturer premium system. The Sperry and Hutchinson Company, organized in 1900 to sell trading stamps, is still operating. Among the more important concerns now is the United Profit-Sharing Corporation, organized in 1914. It is primarily an organization for selling coupons to and furnishing premiums for manufacturers, but it sometimes operates as a trading-stamp company.

The development of trading stamps is a significant bit of merchandising history. This is partly because it changed the method of premium-giving; even more because it reflected the rise of a new middleman in the premium business—the premium company; and most of all, perhaps, because it represented a shift from the manufacturer to the dealer as the center of the buyer's

[8] Rubinow, *Journal of Political Economy*, September 1905. See also C. W. Dunn, "Premium Advertising and the Law," *Spice Mill*, October 1926, Vol. XLVIII, pp. 2000-03.

interest. In its beginnings, at least theoretically, the premium company did not sell its stamps to competing retailers. Hence the dealer who was equipped with coupons entitling his customers to claims upon a great variety of imposing premiums had no small competitive advantage. This advantage, as might be expected, was soon cut into by the rise of competing companies which sold stamps to other dealers.

The rampant development of premium plans, and particularly of the trading-stamp system, has led to extensive regulation of various premium practices. In general terms the Federal Trade Commission has declared the use of "merchandising schemes based on a lot or chance" to be unfair competition. It has placed in the same condemned category the "use of the 'free' goods or service device to create the false impression that something is actually being thrown in without charge, when, as a matter of fact, fully covered by the amount exacted in the transaction taken as a whole."[9] The "lottery" and "gift enterprise" type of premium-giving in which the purchaser's gambling instinct was enlisted to induce him to buy in the expectation of securing a prize or gift of undetermined nature, or in which the purchaser was required to secure a certain set of letters or pictures by purchases of a product without knowing how many purchases might be necessary, early ran afoul of the anti-lottery laws.

The wave of legislation and judicial decision which reached its height between 1905 and 1916 and more or less culminated in the so-called trading-stamp cases[10]

[9] *Annual Report of the Federal Trade Commission*, 1931-32, pp. 87, 88.

[10] The leading cases were: *Rast* v. *Van Deman & Lewis*, *Tanner* v. *Little*, *Pitney* v. *Washington*, 240 U. S. 342-91. In these cases the United States Supreme Court was first asked to determine whether laws prohibiting trading-stamp operations were contrary to the federal constitution.

was chiefly directed against that form of token premium-giving which involves a third party—a company engaged in the business of selling trading stamps.[21] Trading-stamp legislation has sometimes been upheld and sometimes declared invalid by subsequent court decisions.

The series of state decisions since 1916 has thrown into the legality of trading-stamp use a variety of situations, causing the trading-stamp cases to be distinguished "for their utter divergence of opinion."

In general, the so-called direct system, where the giving of premiums occurs without the intervention of coupons, appears to conflict with the law in no state of the union. But where the premium is enclosed in package goods, there is legal objection in Montana and Nebraska. In Montana a law, said never to have been enforced, prohibits enclosure in any package of anything besides the principal content. In Nebraska prohibition is only of such enclosures in packages of food products. Nor is legality of direct premiums subject to added restriction where it takes the form of the so-called "advanced premium," that is, where it is given with an initial purchase and the customer agrees to continue buying from the donor until the premium has been traded out. In the eyes of the law either a com-

The court held that this type of legislation was within the power of the state and was not a violation of the due process law.

[21] An enactment against such operations was made in the District of Columbia as early as 1873. The regulation was tested in 1897 in *Lansburgh* v. *District of Columbia*, 11 App. D. C. 531. The court declared that the law was a valid police measure and that the business of the premium company (The Washington Stamp Company) was "the exploitation of nothing more nor less than a cunning device. With no stock in trade but that device and the necessary books and stamps and so-called premiums with which to operate successfully, they have intervened in the legitimate business carried on in the District of Columbia between seller and buyer, not for the advantage of either, but to prey upon both."

bination sale or a premium deal in which the free goods are delivered with the revenue goods is considered to be a sale of two articles at one price and is thus without legal objection. No less eminent a jurist than former Justice Oliver Wendell Holmes gave the decision in 1896 on what has become the leading case on this point. He pointed out that the Act to prevent the sale or exchange of property under the inducement that a gift or prize is to be part of the transaction was not intended "to forbid a sale of two things at once, even if one of them is the principal object of desire and the other an inducement which turns the scale. . . . It would have been simpler and hardly more sweeping to have forbidden altogether the sale of more than one thing at a time. But the aim of this statute is to prevent offers of bargains which appeal to the gambling instinct, and induce people to buy what they do not want by a promise of a gift or prize the precise nature of which is not known at the moment of making purchase."[12]

The real force of anti-premium legislation has been felt where the coupon becomes an essential part of the process. This is said to be the result of the fact that anti-premium laws are essentially dealer-made laws. The dealer who, as has been noted above, first derived competitive advantage by the use of the trading stamp found that when his competitor also used it his advantage was gone. Furthermore, he found himself a part of a system in which certain of his competitors—chiefly the department stores, some of which gave not only trading stamps but double trading stamps—could operate more intelligently and more effectively than he. The result was a violent reaction on the part of retailers against the trading-stamp idea.

[12] *Commonwealth* v. *Emerson*, 165 Mass. 148.

The political strength of retail merchants compared with that of the trading-stamp companies made the passage of anti–trading-stamp laws comparatively easy.[15] Moreover, in the enactment of such legislation the merchants who used trading stamps and who later felt themselves victimized thereby had the assistance of those who sold articles of the kind used as premiums. The feeling of such sellers was that the consumer was getting through the "premium parlor" the merchandise which they were "entitled" to sell him. However, the merchants who used trading stamps would no doubt have been effective alone in convincing legislators that the system which had at one time seemed to them attractive was now "oppressive" and "parasitical."

The laws to be found in the several states, therefore, are directed chiefly against the use of coupons redeemable in merchandise. They do not affect coupons redeemable only in cash. The requirement that some cash must accompany tokens, however, does not protect the use of such tokens from legal objection.[16] In the eyes of the law the term "coupon" is considered as including a ticket voucher, sales slip, wrapper, box top, trade-mark, or any other evidence of purchase which must be presented in order to receive either a premium or a discount in the purchase of a premium.

In Idaho the use of coupons is a misdemeanor but is usually overlooked. In Washington, where the law is enforced, and in Montana and Nevada, where it is reported to be not enforced, the prohibition is in the form of a prohibitory license tax.

[15] As Rubinow points out in *Journal of Political Economy*, September 1905.

[16] Deals which give coupons redeemable only in cash, or in merchandise only upon the payment of some cash, are classified as monetary deals in this study. See pp. 20-21.

Wisconsin allows coupons redeemable in merchandise only when they are redeemed by the company whose products they accompany. Kansas enforces a prohibitory license tax except for a provision similar to that of Wisconsin with the further limitation that the premium goods must be manufactured by the company offering them. In order to avoid legal restrictions placed on special premium companies, manufacturers at times set up subsidiary organizations to carry on their premium-giving activities. At other times they establish agency relationships with other companies.

Nebraska, Ohio, Indiana, and New Jersey require only that the cash redemption value of coupons shall be stated upon them. Manufacturers engaged in interstate commerce now generally print such a value upon their coupons.[15]

Trading-stamp companies are subjected to a tax in Alabama, Florida, Kansas, Kentucky, Louisiana, Mississippi, Montana, Maryland, Nevada, North Carolina, North Dakota, Tennessee, and Washington. The District of Columbia and Idaho have prohibitory laws.[16]

Premium coupons used exclusively in interstate commerce are held to be removed from the operation of state laws. To be so used it is not enough that the redemption of the coupons take place outside the state having premium laws if the purchase of the merchandise carrying the coupon is made within the state by the recipient of the premium. In other words, to bring the

[15] A. S. Rodbury, "Survey of the Laws Relating to the Use of Premiums in Effect January 1, 1933," *Spice Mill*, January 1933, Vol. LVI, pp. 104-06.

[16] Frank H. Waggoner, "Annual Guide to the Premium Laws of the Various States," *Novelty News*, January 1933, Vol. LVI, pp. 20, 48-55. Mr. Waggoner also points out that a number of cities attempt to regulate the use of premiums, chiefly by ordinances imposing license taxes.

coupon within the protection of this decision both the purchase by the recipient of the premium and the redemption must be consummated outside of the state having the anti-premium law."[27]

Most manufacturers who use premiums have opposed anti-premium legislation. As has been said, it developed primarily as dealer legislation against the use of trading stamps. But as it has not always been easy for legislatures to see the distinction between the trading-stamp system and other types of premiums, manufacturers interested in premiums which accompany purchases have attempted to maintain or to acquire the right to use any form of premium. After some years of effort they have apparently found it possible to check the further enactment of laws which are oppressive to the type of premium-giving in which they have a vigorous interest.

While the trading stamp and premium parlor have by no means disappeared, their popularity with retailers has so waned that premium deals are now usually either gifts acompanying purchases or gifts obtainable by redemption of a coupon furnished with a particular product. The coupon is usually redeemable upon presentation to the deal-giver or to the distributor from whom the purchase was made.

[27] In concluding that no one of the three types of premium-giving under consideration was interstate commerce and thus not regulable by state law, the court said: "... they are not designed for or executed through a sale of the original package of importation but in the packages of retail and sale to the individual purchaser and consumer. This fixes their character as transactions within the state. ... Nor is such influence and effect changed or lessened by the redemption of the tokens outside of the state. The transactions, therefore, are not in interstate commerce."—*Rast v. Van Deman & Lewis*, 240 U. S. 360.

CHAPTER III

THE PLACE OF THE DEAL IN ECONOMIC LIFE

In the material which follows the place of the deal in economic life will, in some sense, be the theme of every chapter. Whatever the particular topic, the purpose will always be to throw some light on the significance of this curious practice of nominally giving without receiving.

But the deal is both an economic and a business phenomenon. The economist who studies the subject will seek light on a number of questions. Certain of these center on a relationship of deals to prices. How do deals operate as part of the price-making process? What effects do they have on prices? Do they modify the monopoly element in the price of branded goods? Do they result in the establishment of a strictly competitive price? Other questions will center on special consumer interests. What effects do deals have on the consumer's buying interest? On the consumer's buying habits? On the consumer's buying intelligence? Questions of cost will also be in mind. Particularly important are the costs of operating deals, the incidence of these costs, and the comparison of them with those arising from other methods of price adjustment.

Outstanding is the question of discrimination. This is closely related to deals in their price aspects. Are deals discriminatory? Do they make it possible for sellers to favor or disfavor certain types of buyers? If there is discrimination, where does it appear to fall?

The manufacturer and the distributor are as vitally interested in some of these questions as is the student of the social sciences. Indeed, to them some of these problems, such as that of discrimination, may be a matter of commercial life or death. Other problems, such as the effects on the consumer, also interest business men, but in a way different from that in which they interest the student of society.

Both economist and business man are interested in the spirit and atmosphere developed in trade by dealgiving. Does it contribute to an easy and comfortable or a difficult and strained atmosphere in which to carry on commercial life? Does the practice add to or subtract from the possible income incident to work as such? Finally, for not only economist and business man, but also for the government official, there is the question of advantage to be found in the extension, modification, or elimination of deals and in the means of accomplishing under trade agreements or "codes of fair competition" the end believed to be most advantageous.

But the business man has particular interests in deals. He is interested in them as a technique. He desires to know what is done and how it is done, that he may compare his methods with others, learn to improve his own policies, or at least to evaluate them. He desires to know the extent to which various techniques are used. He is interested in deals in terms of strategy and tactics as well as of economics.

In practice the economic implications of deals—price effects, costs, discrimination, and the like—are inextricably interwoven with the strategy and technique of those who create them and of those to whom they are applied. It seems desirable, therefore, to study strategies, techniques, and economic implications more or less together,

to study the economic effects of deals as they grow from administrative action.

I. WHO GIVES DEALS AND TO WHOM?

The illustrations and classifications in Chapter I furnish adequate evidence of the way the question, "What vendors give deals and to whom are they given?" may be answered. It is clear that deals are used by manufacturers, publishers, a variety of service agencies, and every major type of distributor. Nor is any class of buyer overlooked. Manufacturers offer deals to other manufacturers, to all types of distributors, and to consumers. Wholesalers offer them to other distributors, probably at times to manufacturers, and to consumers. Chains offer them to consumers, as do individual retailers. The types of buyers to which a deal-using vendor applies deals are limited only by the variety of purchasers of his products.

II. INDUSTRY OR PRODUCT PHENOMENON?

Is the deal, then, known as it is to all types of buyers and sellers, equally well known, or at least well known, to the buyers and sellers in all industries? Is it used with the purchase and sale of all products? If not known in all industries or in connection with all products, in or with which of these is it known, and why?

The answer concerning products is readily given. A gathering of evidence shows that deals are currently or have within the last year or two been applied to promoting the sale of at least 480 products ranging alphabetically from absorbent cotton to yeast and including between these two such a diverse miscellany as babies' rattles, bird cages, coal, depilatories, hair tonics, jewelry, musical instruments, publications, steel, and welding wire.[1]

[1] For an extensive list see Appendix B, pp. 196-202.

Confronted with such a miscellany of revenue goods to which deals are applied, the inference is natural that deals are widely used in many industries. What are the facts on this point? To secure a definite idea as to the range of industries in which deals are used and the extent of them in each, two types of inquiries were made. A large New York department store was asked to report on the frequency with which deals are given in the lines which it carries. This store reported that it receives deals,

Frequently with Purchases of

cosmetics	groceries
drugs	tobacco

Seldom (but sometimes) with Purchases of

books	insecticides
cameras	stationery

Never with Purchases of

adult games	men's wear
artists' materials	millinery
candy (sold under own name)	optical department goods
children's apparel	paints
china	pictures
clocks	radios
corsets	rugs
dress goods	silverware
electrical goods	smokers' accessories
Far East department goods	sporting goods
furniture	toys
garden goods	upholstery fabrics
glass	women's accessories
hardware	womens' apparel
lamps	women's shoes
luggage	women's underwear

An inquiry of a varied sample of trade associations regarding the extent to which deals are used in the in-

dustry represented by each was also made. The food, drug, and tobacco industries were not circularized because it is known from other evidence that deals are common in these fields. Of those to which this special inquiry was sent, the International Association of Garment Manufacturers was the only association which reported a really extensive use of deals. It reported that every one of its members makes use of deals in the sale of men's shirts. The National-American Wholesale Lumber Association and the American Vitrified China Manufacturers Association reported no use of deals, while the American Association of Wholesale Opticians said that their use is "not customary." The American Book Sellers Association and the National Association of Book Publishers reported that publishers use deals occasionally; the National Association of Furniture Manufacturers that both manufacturers and wholesalers of furniture use deals at times. The Association of Cotton Textile Merchants of New York stated that manufacturers in this trade are not users of deals but that each type of distributor uses deals occasionally. (Certain manufacturers of branded sheets, pillow cases, and the like, however, are known to use deals.)

Deals were also reported as used "sometimes" by members of the American Paper and Pulp Association and of the American Bottlers of Carbonated Beverages, and by not only the members but also all classes of distributors selling the products of the American Bakers' Association. Ten per cent of the members of the American Pharmaceutical Manufacturers' Association were reported to use deals.

The conclusion that deals are common in a few industries and occasionally found in many, but that they are not common in a vast number, is further borne out by

reports from members of the American Management Association. Of 80 members of this association reporting on a wide variety of products, only nine indicated that deals are among their methods of pricing and selling. Of these nine, three may be classed as grocery manufacturers; two as sellers of surgical dressings, toilet articles, and drug sundries; and four as vendors of a cleaner for the paint trade, disinfectants and germicides, brushes, and paper products and wood pulp. The conclusion seems inescapable that while deals are very common in a few industries, particularly the grocery and drug trades, and are to be found with some frequency in a considerable number, they are used so infrequently in a great many as to be almost unknown, and they are never found in some.

Yet we must look further than among industries as such to see the true place of the deal in economic life. There is no special quality in the chromosomes of grocery or drug trade personnel which predisposes it to deals. Neither is there anything inherent in the physical make-up of food or drugs which makes them especially adaptable to the use of deals.[2]

[2] The tendency to classify these as deal industries no doubt arises from the fact that deals are often found in the types of merchandise handled by stores *which are called* drug and grocery stores. That this is largely traditional so far as the drug store is concerned is proverbial. Prescriptions now average only 12 per cent of drug-store business. Proprietary products are another 34 per cent. A brief observation in one of the units of the Peoples Drug Stores of Washington showed the following non-medicinal and non-cosmetic items on display: Roller skates, table lamps, puzzles, electric toasters, golf balls, household thermometers (not fever thermometers), electric waffle irons, coffee percolators, flash lights, shoe-repairing outfits, soap, cigarettes, fountain pens, confections, toys, motor oil, razors, floor mops, tennis racquets, electric flatirons, leather goods, poker chips, stationery, footballs, Battle Creek foods, end tables, suit cases, wastebaskets, bottled tomato juice, table tennis, croquet sets, metal garbage pails, card tables, electric clocks, metal utility boxes, billfolds, towels, potato mashers, egg beaters, lawn chairs, can openers, tennis balls, bread

Essentially, a deal is a method of price making and of merchandising. Both economists and business men have long recognized two types of prices—monopoly prices and competitive prices. A monopoly price is usually conceived of as existing in a situation where some individual or company has control over the total output of a product or service, at least for a given market area. Being therefore in a position to decide independently what the price shall be, he attempts to fix it at the point which will bring the greatest net return. The most important element in competitive price making is the existence of a number of rival sellers simultaneously offering buyers what the buyers regard as substantially identical goods or services.

Business men try by every means to escape the rigors of competitive price making. Among the most commonly used devices for escaping the severest of these is that of distinguishing the product from others, to which it may be in fact very similar, by some mark of identification. To the degree that the product can be either actually differentiated, or made to appear to buyers to be something different from other goods, a partial monopoly is created.

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knives, and grass seed. The same store maintains an elaborate fountain and a restaurant service.

Grocery stores also carry, besides edibles, soap, cigarettes, mops, brooms, electric light bulbs, shrubbery, motor oil, and matches. Nor will it long seem novel to find in grocery stores lines of drug products such as have already been installed by certain of them. See *Facts in Food Distribution*, Jan. 10, 1931, p. 9; Dec. 5, 1931, p. 5; Jan. 28, 1933, p. 9; Mar. 4, 1933, pp. 1-2; Mar. 11, 1933, p. 10; "Drugs and Groceries," *Business Week*, Feb. 15, 1933, p. 9 (unsigned); Septimus Grant, "The Food Store's Drug Department," *Voluntary Chain Magazine*, July 1933, Vol. III, pp. 14-15; *Wall Street Journal*, Feb. 28, 1933; "Chain Grocery to Handle Own Brand Toothpaste," *Printers' Ink*, Jan. 26, 1933, Vol. CLXII, p. 44 (unsigned); J. C. Staier, "Tooth Brushes in Grocery Stores," *Printers' Ink*, Apr. 6, 1933, Vol. CLXIII, p. 41.

Branding is the chief device used to distinguish an article from others of its kind. An article with a manufacturer's brand upon it may be called to the attention of possible purchasers as though it were distinctly different from all competing products. Packaging, partly because it gives a distinctive appearance and partly because it lends itself readily to trade and other identifying marks, greatly increases the number of products to which brands may practicably be applied.

Once a product has been differentiated from others by a brand or trade mark, and has been brought to the attention of possible buyers by advertising or other means of publicity, it becomes important to set a price at which it shall be offered instead of accepting the competitive price. Presumably this price will be as near the complete monopoly price as the seller believes he can obtain. But he is operating in what may properly be called an area of semi-monopoly rather than complete monopoly. Differentiation through branding a breakfast food, a toothpaste, a type of gasoline, a manufactured shirt, or a razor blade is not sufficient to give the seller as advantageous a monopoly position as that held by the dispenser of water, gas, electricity, or street-car service to a city. Nevertheless, the seller will presumably go as far as he can toward that "best price" of the more complete monopoly.

There thus arises in this area of semi-monopoly the phenomenon of "standard price." A standard price is the price which a producer of a branded article places upon his product. It is the price at which a given branded product nominally sells, the price below which its manufacturer or dispenser does not like to think of it as selling and at which, so far as he can attain that end, it does sell. Upon the basis of the standard prices of

manufacturers, price structure—that is relative prices for wholesaler, retailer, and consumer—is built up. A system of discounts for the various types of merchants who handle the goods is arranged, and price maintenance, that is the maintenance of a standard price, often attempted. The scheme as a whole is one which obviously tends to fixity and rigidity of price.

Since obviously the maker of a trade-marked advertised product determines its output, he controls the supply and can therefore, if he wishes, refuse to sell at less than the standard price. But the degree of such monopoly is too limited, its grip too feeble, to make such refusal always wise sales strategy. As prices of raw materials go down, or as manufacturers of similar goods—also branded and advertised—press upon him, he finds it wise to lessen the element of monopoly price in his standard price and to seek for means of reducing the amount which his customers must pay. The simple and direct way of accomplishing this would be a reduction in the standard price. But this is an action difficult indeed for the manufacturer of standard-price merchandise. As will be pointed out in Chapter IX, there are a number of strategic reasons why it may be unwise to cut a standard price. But underlying all other reasons, there is a sort of standard-price religion which possesses many of those who have long sustained a price structure. He who offers to sell at less than his standard price is likely to find himself charged with opposition to group interest and with unfair competition. He may become the object of such invidious terms as chiseler and predatory price cutter. In this dilemma, and having to choose between a maintenance of standard price and the loss of business to competitors, the business man very frequently find a way out by using methods which ac-

complish the price cutting but maintain the nominal price structure. In terms of his own psychology these devices enable him to retain a virtuous sense of adherence to standard price while yielding to the forces of competition or the seduction of larger sales. The economic effect of this yielding is to render somewhat flexible the otherwise inflexible prices of semi-monopoly products, and to cause these semi-monopoly prices to approach competitive prices. Important among the devices employed, which include advertising allowances and quantity discounts, are free deals.

With this background, the free deal may be defined as a method of pricing and merchandising in the field of branded, standard-price products. Its field may be enlarged if government price regulation is extended. The deal is a pricing phenomenon in the economic area of semi-monopoly. *If government authority imposes minimum prices, ingenious sellers, in order to meet competitive forces, will use deals as actively to adjust these prices as they do to adjust self-made semi-monopoly prices.* Regardless of branding or standard price, deals are to be found also in the retail field in cases where the retailer, mail-order house, or other distributor offers a deal with the purchase of any merchandise which he sells. In such cases the identity of the merchandise is established in the fact that it is purchased from the given retailer.

The area in economic life occupied by the free deal may therefore better be thought of as that where a certain institutional situation exists than as that occupied by any specific industry or product. When the arrangements make identification and standard pricing, or government or industry minimum pricing possible, deals are likely to develop regardless of the industry affected.

III. TWO SAMPLES

For a consideration of the strategy, tactics, and economic implications of deals it is necessary to study them as they exist in the marketing of packaged, branded, standard-price merchandise. It would be difficult to find a better sample of manufacturers than that represented by the Associated Grocery Manufacturers of America. This association consists almost wholly of the manufacturers of packaged and branded goods. Indeed it originated essentially as an association of such manufacturers as distinguished from the sellers of grocery products in bulk, and it was formerly known as the American Grocery and Specialty Manufacturers' Association. Nearly two-thirds of the members of this association who furnished data on the point do all of their business in factory advertised brands. On the average this group of companies does about 80 per cent of its business in factory advertised brands, 10 per cent in distributors' brands, and 10 per cent in factory unadvertised brands. No company reported any business in unbranded goods. Some form of standard price or scale of prices is used by almost every company in the association. Although its name suggests that the association is concerned only with manufacturers of food products, it includes also manufacturers of soaps, cleansers, matches, and other products which have no relation to food excepting that they are sold by so-called grocery stores. Many of these products are also marketed through other channels, such as wholesale and retail drug stores, department stores, mail-order houses, and notion stores. The use of deals by members of this association may be taken, therefore, as fairly representing the methods and practices with reference to deals which are to be found among manufacturers of packaged and branded products.

As wholesale grocers are the chief buyers of the products of grocery manufacturers, they furnish as satisfactory a sample as could be found of wholesalers' practices in the use of deals, of the relationship of deal-giving manufacturers to their wholesale customers, and of the relationship of deal-giving wholesalers to their retail customers. Also, the deal practices of independent grocery retailers and grocery chains are a satisfactory sample of such practices of those types of distributors generally.[2]

The numerical limitations of the sample are fully appreciated. There seems to be no reason, however, for questioning the general accuracy of the findings except in those cases where the general sample is divided into so many groups that each includes only a very small number of companies. Even in those cases it is without contradictory evidence. In view of the fact that a somewhat varying number of companies reported on various questions, it has seemed best usually to report the returns in percentage terms. Unless otherwise indicated, in the material which follows "the manufacturers' sample" or "the wholesalers' sample" will refer respectively to data secured from the studies of the Associated Groc-

[2] As indicated in the Author's Acknowledgments, the Associated Grocery Manufacturers of America, the National Wholesale Grocers' Association of the United States, and the National Chain Store Association co-operated actively in the collection of data on deals. The data concerning the grocery industry reported in this study, excepting where otherwise indicated, were obtained from members of these organizations by a series of questionnaires, and a large number of interviews and discussions with manufacturers, wholesalers, retailers, corporate and voluntary chain-store executives, and brokers. The investigation covered not only deals but also a number of other trade practices.

Reports on deals were received from 60 grocery manufacturers (selling some 450 products) and 71 wholesale grocers, in addition to which returns were secured from several of the larger chains and from a large number of manufacturers and wholesalers by personal interview. The most extensive of the questionnaires on deals appears in Appendix C. A sample of the basic questionnaires answered by the various divisions of the trade appears in the author's book *Advertising Allowances*.

ery Manufacturers of America and the National Wholesale Grocers' Association. Data from other sources will be specifically designated.

For the study of those packaged, branded, standard-price products which are typically sold through retail drug stores, still another sample was used. This sample is the one reported in *Selling and Service*, October 1932-March-April 1933, and covers deals offered by manufacturers to retailers buying from manufacturers' wholesale customers. Although limited to manufacturer indirect-buying deals to retailers, the material is otherwise as perfectly adapted to the purposes in hand as is the sample described above.[4] In dealing with this sample, as with the other, findings are expressed in terms of percentages. Even with this large number of companies there are certain instances when the necessary division of the sample has made the number of examples of any one type of practice very small.

IV. PERVASIVENESS OF DEALS IN SALES OF IDENTIFIED STANDARD-PRICE PRODUCTS

In selling products which are susceptible to deal merchandising, the use of deals is very extensive. At least 82 per cent of the grocery manufacturers of the sample have, upon occasion, utilized deals.[5] Of these deal-using companies about one-half use deals in the sale of every one of their products, and one-fifth more use them in sales of more than half of their products. Somewhat less than half of the items sold by manufacturers of the sample,

[4] In all 253 companies and 521 products or assortments of products are included.

[5] Since one of the questionnaires asked only about the practice of giving deals to dealers and the other one only about the giving of deals on established products, companies giving only introductory deals to consumers (unless the existence of this practice was discovered from some source other than the questionnaire reports) would be classed with those not using deals at all.

which is about three-quarters of the products sold by deal-using companies of the sample, carry deals.

Nor is this all of the story. While some deal-giving companies reported that they had employed deals only once or twice in their entire history, others use them more or less continuously and use many forms of deals even on one product at one time and in one place. An examination of the outline on pages 24-27 reveals that a manufacturer has open to him at one time more than a thousand types of deals to each type of wholesale or retail buyer and half as many types to consumer buyers of his products or services, as the case may be.* When one realizes that each type of deal is capable of considerable, some of infinite, variation, and that a number of deals may be offered simultaneously to each class of buyer on each product, the possible multiplication of deal offers even at a given moment becomes bewildering. When one then remembers that by the use of temporary deals many may be repeated at short intervals, the possible complications become almost inconceivable. It is not surprising then that, taking into account all main classes and sub-classes, some manufacturers have a dozen, or even a score, of deals on each of several products operating simultaneously.

Among grocery wholesalers deals are as general as among grocery manufacturers. About 85 per cent of the grocery wholesalers reported the use of deals to dealers both at the present time and in the past. It is possible that certain of the wholesalers who do not give deals to dealers do give them to consumers, in which case deal-users would be a larger proportion of all wholesalers. It is not known definitely how many deals any one whole-

* These figures disregard deals in which more than one form of gift is offered as part of one deal and also disregard the value dimension of deals.

saler operates at any one time or how frequently they occur in his selling practices. General evidence suggests that deals by wholesalers are considerably less varied in form and less frequent in application than are deals by manufacturers. Therefore, it may be that deals are not used as frequently by wholesalers as by manufacturers even though a greater proportion of wholesalers than of manufacturers give them.[7]

Though drug manufacturers are not by any means strangers to the deal device, they do not use it as generally as do grocery manufacturers. A small group of drug wholesalers[8] reported varyingly that from 10 to 50 per cent of the manufacturers of so-called drug products originate deals. Their reports indicate that from 5 to 40 per cent of the products they purchase from manufacturers carry deals. The practice is considered by one large manufacturer and wholesaler of drug products (McKesson and Robbins) to be of such significance that in 1930 it began the monthly publication of an index of deals offered by manufacturers to retailers who buy through wholesalers.

The drug manufacturers of the sample do not limit themselves to one deal on each product. One company offers retailers from one to four deals on each of some 25 products at the same time, and other deals on certain combinations of products. As in the case of grocery manufacturers, however, there are some deal-giving drug manufacturers who, in their whole history, have never offered more than one or two deals.[9]

[7] Retailers of every type originate deals, but quantitative data as to their frequency are not available.

[8] Eight members of the National Wholesale Druggists' Association.

[9] Also, the Mennen Company, after using deals for several years, announced on Jan. 3, 1933 that they would be abandoned and that a lowering of the list price would be substituted for the free goods previously offered. "Mennen Eliminates Free Goods from Price Lists and Lowers

Only one-fourth of the reporting drug wholesalers originate deals themselves. Opinions regarding the use of this practice by other wholesalers varied from the belief of one wholesaler that it never occurs to the belief of another that as many as 70 per cent of all drug wholesalers originate deals.

Probably the proportion of drug retailers who offer deals on their own account is even smaller than that of drug wholesalers who do so. Nearly half of the reporting wholesalers believe that the practice is never followed by retailers, and no wholesaler reported believing that more than 50 per cent of the retailers originate deals.

Having discovered that in both the grocery and drug samples deals are originated by large proportions of manufacturers and by some distributors, the question arises, To whom are the deals of these various sellers applied? Obviously only manufacturers are likely to apply deals to wholesale buyers. Both manufacturers and wholesalers might be expected to apply deals to retailers. Manufacturers, wholesalers, and retailers might be expected to apply deals to consumers.

Of grocery manufacturers giving deals on established products, the following percentages give deals to the indicated classes of buyers:[10]

Wholesale buyers	85
Retail buyers	75
Consumers	60

List Prices," *Selling and Service*, January 1933, Vol. IV, p. 41. (Unsigned.)

[10] It is not known what proportion of manufacturers or wholesalers give deals to industrial buyers. However, reports from 32 members of the National Association of Purchasing Agents who buy for manufacturing companies indicated that about two-thirds of these industrial buyers are offered deals by some of the companies from which they buy. Many of these buyers may purchase from the same concerns, however, and thus only a few companies may constitute all the deal-givers.

That is, more manufacturers design deals for wholesale buyers than for any other type of buyer.[11]

The tabulation does not indicate, however, that wholesale buyers necessarily receive deal offers from a larger proportion of the companies from which they buy than do other classes of buyers. A retailer, for example, may receive deals originated by wholesalers as well as by manufacturers. Indeed, approximately three-fourths of the premium-giving grocery wholesalers originate such deals for retailers. And, while comparative data are not available, it seems probable that an even larger proportion of the wholesalers who give other forms of deals give them to retailers.

Consumers receive deals originated by 60 per cent of the deal-giving manufacturers and by 50 per cent of the premium-deal-giving wholesalers.[12] They also receive other forms of deals originated by wholesalers and a variety of deals originated by retailers.

[11] If 85 per cent of deal-giving manufacturers give deals to wholesalers, about 70 per cent of all manufacturers give such deals. A summary of the reports of wholesale grocers indicates that they receive offers of deals from approximately half of the grocery manufacturers who sell to them.

[12] It is not known how many wholesalers offer other forms of deals to consumers.

CHAPTER IV

APPLICATIONS OF DEALS TO PURCHASES AND SALES

In the analysis of the nature of deals in the first chapter it was pointed out that a seller may base a deal upon either a purchase or a sale made within a specified period. The purpose of the deal-giver may require only that he move his goods from his own hands into those of an immediate buyer. In such a case he might offer a deal based on the purchases of such a buyer. On the other hand, his purpose may require that his goods be encouraged to pass through the hands of an intermediary into those of a subsequent buyer. In this instance he might give a deal either to the direct buyer based on the latter's sales to the indirect buyer—a selling deal—or to the indirect buyer, based on the latter's purchases. Thus, the plan might be to give a direct-buying deal, an indirect-buying deal, or a selling deal.

I. RELATIVE FREQUENCY OF BUYING AND SELLING DEALS AMONG MANUFACTURERS

Are buying deals or selling deals the more frequent instrument in selling strategy? In measuring the frequency with which each is employed, one may use either the proportion of manufacturers which use each or the proportion of products to which each type is applied.

The buying deal is the most widely used of any type of deal. Selling deals, though not nearly as generally used, are nevertheless a significant factor in manufacturer deal-giving. The percentages of deal-giving grocery

manufacturers of the sample who use each, and of deal-carrying products which carry each, are:

	Percentage of Manufacturers	Percentage of Products
Buying deals	100	100
Selling deals	29	43

As between direct-buying and indirect-buying deals grocery manufacturers find little to choose though they show some special favor to the former. The percentages of companies using buying deals which use each form, and of products carrying buying deals which carry each, are:

	Percentage of Manufacturers	Percentage of Products
Direct-buying deals	85	83
Indirect-buying deals	80	76

II. BUYING AND SELLING DEALS IN RELATION TO CLASSES OF BUYERS

In the decision as to whether a direct-buying, an indirect-buying, or a selling deal will be the best strategy in a given situation, the class of buyer is an important factor. In the case of deals to retailers, any one of the three forms may be used. In the case of deals to wholesale buyers, on the other hand, indirect-buying deals cannot be a general practice, while in the case of consumers, selling deals cannot be used. Indeed, manufacturers so seldom sell direct to consumers that direct-buying deals to consumers are unusual. None was mentioned by the reporting manufacturers. That is, indirect-buying deals are the only form generally applicable to consumers.

Wholesale buyers were reported to be offered the indicated types of deals from the following percentages of

manufacturers who give deals to such buyers and of products which carry manufacturer deals to such buyers:

	Percentage of Manufacturers	Percentage of Products
Direct-buying deals	100	89
Selling deals	35	49

Whether the conclusion is based on the proportion of deal-giving companies or of deal-bearing products, direct-buying deals are much more general than are selling deals in sales to wholesale buyers.

The question then arises, Is there any variation among the different types of wholesale buyers as to the relative extent of the use of buying and selling deals by manufacturers? Except for one company which excludes retailer-owned wholesalers and another which excludes wholesalers from direct-buying deals, every one which offers any form of deal to any wholesale buyer offers it to all such buyers.

Manufacturers may apply either direct-buying or selling deals in sales to direct-buying retailers. Such retailers were reported to be offered the indicated types of deals from the following percentages of manufacturers who give deals to such buyers and of products which carry manufacturer deals to such buyers:

	Percentage of Manufacturers	Percentage of Products
Direct-buying deals	100	88
Selling deals	14	50

Direct-buying deals are used by about the same proportion of manufacturers and with the sale of about the same proportion of products in deals to retailers who buy direct as they are in deals to wholesale buyers. Selling deals

are used by a somewhat smaller proportion of manufacturers with the sale of a somewhat larger proportion of products in deals to direct-buying retailers than they are in deals to wholesale buyers.

All manufacturers who give deals to indirect-buying retailers give them buying deals exclusively. At least, no manufacturer of the sample reported using selling deals in sales to such retailers.

III. ADMINISTRATION OF INDIRECT-BUYING AND OF SELLING DEALS

Both buying and selling deals to indirect buyers and selling deals to direct buyers give rise to the administrative problem of determining the quantity of the deal-giver's goods on which the deal is to be allowed. Deals to indirect buyers also occasion special administrative difficulties in the delivery of free goods or allowances.

In the case of manufacturer indirect-buying deals to retailers the ways of determining the purchases of retailers and of delivering deal gifts to them are several.[1] At times purchases of retailers are simply the sum of the orders taken by the manufacturer's specialty men. When this is the case, the orders taken in each sales territory are turned over to the wholesaler in that territory to be filled by him. The respective wholesalers may also deliver the deal gifts, or, the manufacturer may deliver them directly.

At other times each wholesale order received by a manufacturer during a deal period is an automatic notification of a retailer indirect purchase. This is true when

[1] For a study of the administrative practices used in certain forms of drug manufacturer deals to indirect-buying retailers see H. J. Ostlund, "The Distribution of Free Deals by Service Wholesale Druggists," *National Wholesale Druggists' Association Bulletin No. 17*, pp. 3-5, 25.

the manufacturer packs the deal goods with the revenue goods in cases for the retailer. Such packing also solves the problem of delivery of the free goods.[2]

The manufacturer may make use of other methods. He may require coupons from the retailer (each coupon being obtainable only with a certain quantity of the manufacturer's goods) as evidence of the amount purchased. He may require from the retailer, or possibly from the wholesaler, copies of invoices as evidence of purchases by retailers from wholesalers. Less formal reports of the wholesaler as to purchases by the retailer may be relied upon.[3] In any of the cases requiring special report of purchases to the deal-giver, goods may either be delivered directly by him or may be furnished to the wholesaler for delivery.

In same-goods deals where the packing method is not employed, apparently the almost universal practice is to ship the extra goods to the wholesaler for distribution among the retailers in proportion to the sales made.[4] When premium goods are used by manufacturers in indirect-buying deals to retailers, the most common practice is likewise to ship the premium goods to the wholesaler and to rely on his distribution. Only a small proportion of manufacturers send the premium goods directly to the retailer.

Where the manufacturer employs a monetary-indirect-buying deal for retailers, he may mail a check for

[2] When a deal is so administered without any further check on sales, it is, of course, possible that the wholesaler may have on hand some unsold deal merchandise at the end of the deal period.

[3] Such data as were received on the relative frequency of the use of these various methods were not sufficient to justify conclusions.

[4] No other method, in fact, was reported; but as the number of manufacturers reporting on this point was not large, it is possible that other methods are used.

the earned deal allowance directly to the retailer. He may arrange with the wholesaler to remunerate the retailer by discount,[5] price reduction, cash, or credit memorandum, permitting the wholesaler to charge him with the amount given to the retailer. Of these methods the direct payment from the manufacturer to the retailer is reported somewhat more frequently than are any of the methods by which the wholesaler remunerates the retailer.

Drug manufacturers, in indirect-buying deals to retailers, usually arrange to have the wholesaler deliver the deal gift to the retailer. The percentages of these deal-giving companies which use each method of delivering the deal goods, and of deal-bearing products to which each method is applied, are:

	Percentage of Manufacturers	Percentage of Products
Through wholesaler . .	77	84
By manufacturer directly	24	19

Manufacturers who give indirect-buying deals to consumers, as well as those who give them to retailers, are confronted with the problem of checking what is due on the deal and of making delivery. A coupon, returnable to either the retailer or the manufacturer, is the device most commonly used to ascertain the amount and the purchaser of goods sold under a deal offer. The coupon, exchangeable for deal goods or for a monetary allowance, may be enclosed with package merchandise, may be a part of the package itself, may be delivered to con-

[5] One manufacturer stated that he allows the wholesaler an extra discount which is to be passed on to the retailer. If this discount is allowed only on the understanding that it is to be passed on, the procedure is properly interpreted as a deal and as an indirect-buying deal for retailers.

sumers in advance for utilization in the purchase of revenue goods from a retailer, or may be supplied by the manufacturer to the retailer, for distribution which consumer purchases, at a certain ratio. The use of coupons which are enclosed in or are part of a package was reported more frequently by grocery manufacturers than were other methods of securing information of consumer purchases. It may be pointed out that the distribution of coupons by the retailer does not furnish the manufacturer as perfect a check on consumer purchases as does any one of the other three methods. Obviously, the retailer may dispense coupons without following too closely the regulations of the manufacturer.

Where the retailer redeems the coupon, he may already have been furnished with the deal goods by the manufacturer directly or through the wholesaler; or he may be reimbursed either by the manufacturer directly or through the wholesaler. Consumer coupons not redeemed by retailers are redeemed by the manufacturer directly, or at some premium establishment.

Manufacturers also accomplish the tasks of checking and delivering goods in indirect-buying deals to consumers by two methods other than the use of coupons. One is by shipping to retailers the free goods for consumers and marking them "not for sale" or "sample, not for sale."[8] When so handled, the free goods may be sent direct to the retailer, even though the retailer's purchases are through the wholesaler, or they may be shipped to the wholesaler for re-shipment to the retailer. A second method is to attach the deal product to the revenue goods. Premium goods such as silverware and novel-

[8] Where this method is followed, it is difficult for the retailer to re-sell the deal goods, but it is possible for him to consume them or to turn them to some use other than that intended by the manufacturer.

ties are of a sort commonly placed in packages. One manufacturer reported that when a deal is being offered to consumers his salesmen visit the retailers' store and tape one package of free goods to each package of the revenue goods.

Wholesalers as well as manufacturers make use of indirect-buying deals to consumers. It is clear that their problem escapes the complexities of some of the indirect-buying deals of manufacturers, because they have only one intermediary through which they can go. There was no evidence received from wholesalers which indicated that they make use of methods in these deals differing from those employed by manufacturers.

Since the selling deal involves giving something free contingent upon the sale made by the recipient, it likewise requires some method of checking by the giver of the deal. Manufacturers rely upon three devices: Reports from the sellers as to the amount sold; copies of invoices; and the so-called count and re-count. The count-and-re-count method requires that the manufacturer selling to wholesalers and using this type of deal shall have his representative count the number of cases of his product in the wholesalers' warehouses on the date when the deal opens and re-count on the date when the deal closes.[1] Obviously the stock which a given wholesaler has on hand at the opening date, plus sales to him during the deal period, less his stock on hand at the closing date, equals the number of cases sold by him during the period. This method is used at times by each of the three grocery manufacturers who furnished data on this point. Each of the other methods is used by one of these three companies.

[1] The same process is involved for any seller. As for example, if a wholesaler gives a count-and-re-count-selling deal to retailers.

In conclusion it may be said that every manufacturer who gives deals to wholesale, retail, or consumer buyers gives them buying deals. Direct-buying deals are favored slightly more than indirect-buying deals. Selling deals are given by about one-third of the deal-giving manufacturers on about one-half of the deal-bearing products in sales to wholesale buyers; by about one-seventh of the companies on about half of the products in deals to direct-buying retailers; and not at all to indirect-buying retailers.

The complications arising in the administration of indirect-buying and selling deals have been met in a great variety of ways.

CHAPTER V

THE GIFT IN DEAL STRATEGY

Since the essence of a deal is something given contingent upon a purchase, an important element of deal strategy is, What shall be given? Shall a seller use all forms of gifts at one time or another, or even simultaneously, or shall he limit his offers to one form of gift? Or, shall he use different gifts with different products but only one kind of gift with each product?

I. GROCERY MANUFACTURER DEAL GIFTS

Do grocery manufacturers use one form of gift more than another? Do more products carry one form of gift than another? Do the answers to these questions vary with variation in the familiarity of the revenue goods, in the type of recipient, in the basis of the deal? These questions will all be answered in terms of the reported practices of deal-giving grocery manufacturers of the sample.

A. Strategy Determined by Familiarity of Product

In deals on established products some form of goods deal is used by every manufacturer; same-goods deals are used by more companies than are premium-goods deals; and products manufactured by others are favored by more than are products manufactured by the deal-giving company. In monetary deals many more companies use some form of discount or price-reduction deal than use cash rebates or credit memoranda.

On the basis of products, an analysis of what is given

shows the premium deal to be used as commonly as the same-goods deal. This difference from the results of the analysis based on companies arises from the fact that some companies which use both same-goods and premium-goods deals apply the latter to more of their products than they do the former. Considered on the basis of either companies or products premium goods are much more commonly those manufactured by others than those manufactured by the deal-giving company. Monetary deals occur more frequently when arranged according to products than when grouped according to manufacturers. This divergence may be explained, however, by the fact that one company applies credit-memorandum deals to a very large number of products.

More precisely, in deals on established products, the following percentages of manufacturers give the indicated types of gifts and the following percentages of products carry such gifts:[1]

Type of Gift	Percentage of Manufacturers	Percentage of Products
Goods	100	86
Same goods	90	68
Premium goods	75	68
Made by same company	35	29
Made by another company	55	56
Monetary allowances	29	50
Discounts or price reductions	29	32
Cash rebates	10	12
Credit memoranda	5	29

It is apparent[2] that in deals on established products many manufacturers use several types of gifts, even in

[1] No service deals were reported.

[2] Because the sums of the percentages of manufacturers and products respectively are more than 100.

some cases applying several to a single product, perhaps at the same time. It was found that one, two, or more of the six types of gifts already discussed were used by the following percentages of manufacturers and applied to the following percentages of products:

Number of Types of Gifts	Percentage of Manufacturers	Percentage of Products
One	35	37
Two	25	27
Three	30	19
Four	5	10
Five	–	5
Six	5	2
	100	100

Data less complete than those for deals on established products make possible a classification of introductory deals on the basis of what is given to distributors.[8] This classification is in terms of premium deals and all other deals. The following percentages show that a much smaller proportion of manufacturers rely on premiums than on other types of deal gifts in introducing a product to distributors:

Premiums	47
Other gifts	95

Premiums assume considerably more importance among introductory deals than they do among deals on established products, however. Of manufacturers giving introductory deals to consumers, 47 per cent choose premiums; while of those giving deals on established products to distributors, only 33 per cent choose premiums.

[8] Data which would make possible a satisfactory tabulation on introductory deals to consumers are lacking.

B. Strategy Determined by Type of Recipient

A further demand is made on the strategy of deal-givers by the necessity of planning what shall be given to various types of recipients. Is it administratively best to give the same inducements to wholesale as to retail buyers, to retail as to consumer buyers, and to each division of these classes as to every other division? We shall first examine what is given to the general classes of recipients and then consider what is given to the various types of recipients within each class.

1. General Classes of Recipients

Several pieces of somewhat different evidence all tend to show the variation in gift strategy applied to the general classes of recipients. In some cases the evidence relates to deals on established products only, in others to introductory deals as well.

The first piece of evidence pertains to both introductory deals and deals on established products. It shows that the following percentages of manufacturers giving deals to wholesale and retail buyers respectively give premiums or other gifts to such buyers:

	Premiums	Other Gifts
Wholesale buyers	28	96
Retail buyers	71	88

For both classes of buyers premiums are used by fewer companies than are other deal gifts. For retail buyers, however, premiums are used by nearly as many companies as are other gifts, while for wholesale buyers they are used by less than one-third as many companies as are other gifts. Apparently, manufacturers regard the premium as a more effective lure for retailers than for wholesalers.

The second collection of data applies to deals on established products only.[4] It includes information not merely on premiums as compared with other types of gifts, but on each of six specific types of gifts as compared with the others. Of manufacturers who give deals to each class of recipient the following percentages give the specified types of gifts to such recipients:

Type of Gift	Wholesale Buyers	Retail Buyers	Consumer Buyers
Goods	100	93	100
Same goods	82	64	50
Premium goods	47	64	100
Made by same company	29	29	42
Made by another company	18	36	75
Monetary allowances	29	21	33
Discounts or price reductions	24	14	33
Cash rebates	6	14	–
Credit memoranda	6	7	–

The first thing to be noted in this table is that all manufacturers who give deals to either wholesale or consumer buyers, and a slightly smaller proportion of those who give deals to retail buyers, give goods deals to such buyers. Wholesale buyers receive same-goods deals from considerably more manufacturers than they receive premium-goods deals. To some it will be surprising that the consumer receives same-goods deals

[4] Wholesalers were asked, in regard to established products, "What proportion of manufacturers who sell to you offer premiums to consumers?" Their reports were varied but indicated that this practice is followed by about 10 to 15 per cent of such manufacturers and that the practice is increasing. However, of manufacturers reporting on the use of deals on established products, about 34 per cent use premium-goods deals to consumers. The latter figure might include some deals given to consumers in sales made by manufacturers directly to retailers.

from such a large proportion of manufacturers. Nevertheless, with consumers the premium has the greatest vogue. Judging from the fact that premiums are used for consumer buyers by all, for retail buyers by 64 per cent, and for wholesale buyers by 47 per cent of the manufacturers who give deals to each of these classes of recipients, it appears that the closer one is to the consumer the more effective the premium is, while the larger the scale of buying operations, the less effective it is. For same-goods deals just the reverse appears to be true. Curiously enough, the monetary allowance is applied to the buyers in each group by approximately equal proportions of manufacturers. Distributor buyers, however, at times receive all three types of monetary allowances, while consumers never receive cash rebates or credit memoranda. The prominence of monetary allowances as deals to consumers is, no doubt, largely an evidence of the use of coupon deals which give consumers some form of discount or price reduction.

An interesting detail of these data is the extent to which premiums manufactured by others as compared with premiums of own manufacture are used by this group of manufacturers in their work with different types of buyers. In premium deals to wholesalers more companies use goods of their own manufacture; with retailers the opposite is true. But with consumers premiums manufactured by others are employed by nearly twice as many companies as are those made by the same manufacturer. It is evidently the belief of manufacturers that consumers are most effectively enticed to purchase by some lure which is not merely an additional unit of a similar product.

An appraisal of what is given on established products may also be made by examining the proportion of deal-

carrying products to which different types of gifts are applied. Of products which carry deals to each class of recipient the following percentages carry the specified types of gifts to such recipients:

Type of Gift	Wholesale Buyers	Retail Buyers	Consumer Buyers
Goods	78	81	96
Same goods	65	61	28
Premium goods	24	35	96
Made by same company	16	16	40
Made by another company	8	19	80
Monetary allowances	51	52	16
Discounts or price reductions	30	26	16
Cash rebates	3	16	–
Credit memoranda	30	35	–

Although conclusions drawn from this analysis are similar to those reached when considering the matter in terms of manufacturers, some interesting differences in detail are apparent. It was noticed that 100 per cent of the manufacturers who give deals to wholesale buyers give them goods deals. However, only about 78 per cent of the products on which manufacturers give some form of deal to wholesale buyers carry goods deals. Similar comparisons made in the giving of same-goods deals to retail and consumer buyers show somewhat less divergence between the two tables. On the other hand, it will be noticed that monetary allowances are applied on a proportion of products larger than the proportion of manufacturers using them, in sales both to wholesale buyers and to retail buyers. The importance of the use of premiums for consumers as compared with their use for wholesale and retail buyers is much less pronounced in terms of products than in terms of manufacturers;

but the fact that premiums manufactured by others are those most commonly used to attract consumer purchases is fully as striking.

The credit memorandum as one form of monetary allowance deal is brought strikingly into the picture only when the matter is viewed from the standpoint of the products carrying deals. In deals to wholesale buyers it is given with 30 per cent of the products; in sales to retail buyers with 35 per cent. Since the extensive use of this form of monetary-allowance deal to both wholesale and retail customers by one concern selling a large number of products accounts in considerable part for this situation, it cannot be considered to be of particular significance.

In considering the data in the table on page 69 it is apparent[6] that some manufacturers give more than one of the six types of deal gifts to certain classes of recipients. This raises the question of how many different types of gifts manufacturers give to each class of buyer. Of manufacturers giving deals to each class of recipient the following percentages give the indicated number of types of gifts to such recipients:

Number of Types of Gifts	Wholesale Buyers	Retail Buyers	Consumer Buyers
One	58	64	33
Two	18	22	42
Three	18	7	17
Four	6	–	8
Five	–	7	–
Six	–	–	–
	100	100	100

[6] Because the sums of the percentages of manufacturers giving each type of gift to each class of recipient is more than 100.

More than half of the reporting companies limit themselves to one type of deal gift to each class of distributor buyer. In deals to consumer buyers, however, a very few more companies use two forms of gifts than use only one form. Some companies reported using three, four, or even five forms of gifts to various classes of buyers.

The results are somewhat different when products on which deals are applied rather than manufacturers who give deals serve as the basis for analysis. Of the products which carry deals to each class of recipient the following percentages carry the specified number of types of gifts:

Number of Types of Gifts	Wholesale Buyers	Retail Buyers	Consumer Buyers
One	65	54	56
Two	19	26	28
Three	16	10	12
Four	–	10	4
Five	–	–	–
Six	–	–	–
	100	100	100

It will be seen that only one form of gift is used in the sale of more than half of the products to which deals are applied, even in sales to consumer buyers. The lack of variety in types of gifts in deals on any one product is particularly noticeable in deals to wholesale buyers. Indeed, no manufacturer gives more than three types of gifts to wholesale buyers on a single product, though a few do give as many as four types of gifts on single products in deals to retail and consumer buyers.

2. *Types of Recipients within the General Classes*

We may now consider what is given to different types of recipients within a single class, that is, to different

types of wholesale buyers and different types of retail buyers. Here again more than one collection of evidence will be presented.

When all deals, whether introductory or on established products, are considered, both premiums and other deal gifts are given to each type of wholesale buyer by about the same proportion of manufacturers. Premium deals are given by a slightly greater proportion of companies in sales to mail-order houses and department stores than in sales to wholesalers and voluntary chains. They are used by the smallest proportion of companies in sales to corporate chains. In the following table showing these proportions, the percentages are based in each case on the number of manufacturers giving deals of any kind to the particular type of wholesale buyer specified.

	Premiums	Other Gifts
Wholesalers	32	95
Voluntary chains	30	95
Corporate chains	22	96
Mail-order houses	44	100
Department stores	40	100

Passing now to deals on established products only, a more detailed analysis of what is given to various types of wholesale distributors can be made. It is possible not only to find how many manufacturers giving deals to each type of distributor give them goods deals and monetary deals respectively, but also to break up these classes of deals into their sub-classes.* It was also possible to find the proportion of products sold to each type of distributor on a deal basis which carries each type

*A summary of the reports of wholesale grocers indicates that of manufacturers who offer them deals on established products from 75 to 80 per cent offer same-goods deals, about 15 per cent offer premium-goods deals, and about 35 per cent offer monetary deals.

of gift. The results of such an analysis show for each type of wholesale buyer a series of percentages practically identical to those applying to wholesale buyers as a single class. Therefore, it must be concluded that in deals on established products manufacturers seldom vary their strategy among types of wholesale buyers. One company reporting the use of same goods only in deals to wholesalers, corporate chains, and voluntary chains, reported no deals whatever to retailer-owned wholesalers. Another, which uses both same-goods and cash-rebate deals to all wholesale buyers, also uses premium goods of its own manufacture in deals to all of them except wholesalers.

Since each type of gift is given by almost the same proportion of manufacturers and with almost the same proportion of products to each type of wholesale buyer as to wholesale buyers considered as a single class, it is apparent that the extent of duplication of types of gifts is approximately the same to each type of wholesale buyer as to wholesale buyers in general.

There are two classes of retail buyers so far as deal-giving is concerned, direct-buying retailers and indirect-buying retailers. Does the manufacturer in planning deal strategy for retailers find it necessary to consider each of these classes separately? What does he give to each?[1] The data available apply to deals on established products. The number of manufacturers giving each type of gift to each class of retail buyer, expressed as a percentage of all manufacturers giving deals to the same class of buyer, is as follows:

[1] Wholesalers were asked, in regard to deals on established products, "what proportion of the manufacturers who sell to you offer premiums to retailers who are your customers?" A summary of their replies indicates that this practice is followed by from 10 to 15 per cent of manufacturers and that its use seems to be increasing slightly. About 25 to 30 per cent of the grocery manufacturers of the sample follow this practice.

Type of Gift	Direct-Buying Retailers	Indirect-Buying Retailers
Goods	100	85
Same goods	83	54
Premium goods	83	62
Made by same company	33	23
Made by another company	50	38
Monetary allowances	33	23
Discounts or price reductions	17	8
Cash rebates	17	15
Credit memoranda	17	–

The number of products to which each type of gift is applied in sales to each class of retail buyer, expressed as a percentage of products to which deals are applied in sales to the same class of buyer, is as follows:

Type of Gift	Direct-Buying Retailers	Indirect-Buying Retailers
Goods	82	72
Same goods	73	39
Premium goods	27	50
Made by same company	14	17
Made by another company	14	33
Monetary allowances	68	33
Discounts or price reductions	32	6
Cash rebates	5	28
Credit memoranda	50	–

It will be seen at once that a somewhat larger proportion of manufacturers use goods deals for direct-buying retailers than use them for retailers buying from wholesalers. This larger proportion is derived in part from the greater proportion which gives same goods to direct buyers and in part from the larger proportion

which gives them premium goods. The type of premium goods which is given by more manufacturers to direct-buying than to other retailers is goods made by other companies.

When the data are considered from the point of view of what is given with different types of products, goods deals also seem to predominate in deals to direct-buying retailers as compared with deals to indirect-buying retailers. This predominance, however, consists wholly of the greater frequency with which direct buyers as compared with indirect buyers are given same-goods deals. The contrast between this and the statement made in the paragraph just preceding must be explained by the fact that one company uses same-goods deals to direct-buying retailers on a large number of products.

Monetary allowances are given by about the same proportion of manufacturers to direct-buying retailers and indirect-buying retailers but are carried by a somewhat larger proportion of products to the former than to the latter. Again the difference may be explained by the fact that one company uses monetary deals to direct-buying retailers in the sale of a large number of products. Some form of discount or price reduction deal is used more frequently with direct than with indirect buyers, as is also true of credit memoranda. A credit memorandum is the most extensively used of monetary deals in direct selling to retailers, as is seen from the comparatively greater frequency with which it is applied to products. Cash-rebate deals, on the other hand, are given by a larger proportion of companies and on a much larger proportion of products to the indirect buying retailer than to the one who buys direct.

Whether manufacturers giving deals or products carrying them are considered, the strategy of using two or

more of the six types of gifts under discussion is more general in connection with direct-buying than indirect-buying retailers, as seen in the following table in which all manufacturers giving deals to the specified type of retailer are taken as 100.

Number of Types of Gifts	Direct-Buying Retailers	Indirect-Buying Retailers
One	43	67
Two	29	25
Three	14	8
Four	14	–
Five	–	–
Six	–	–
	100	100

In the following table all products carrying deals to each type of retailer are taken as 100.

Number of Types of Gifts	Direct-Buying Retailers	Indirect-Buying Retailers
One	46	81
Two	29	13
Three	25	6
Four	–	–
Five	–	–
Six	–	–
	100	100

C. Strategy Determined by Basis of Offer

The question of what shall be given in deal strategy has a further complication. With the question, "what shall be given to whom?" often appears the question, "What shall be given in buying deals and what in selling

deals?" A given manufacturer may, for example, find that it is best to use premium goods in buying deals to wholesalers and same goods in selling deals to wholesalers, or vice versa.

From the table below it may be seen that all manufacturers who give either direct-buying or selling deals to wholesale buyers use goods as the gift, at least at times. For buying deals many more manufacturers use same goods than use premium goods. So few companies reported selling deals to wholesale buyers that the subdivisions of that group have no significance except to indicate that each form of gift is sometimes used. The number of manufacturers giving wholesale buyers each type of gift in each type of deal, expressed as a percentage of manufacturers giving wholesalers such deals, is as follows:

Type of Gift	Direct-Buying Deals	Selling Deals
Goods	100	100
Same goods	82	33
Premium goods	47	67
Made by same company	29	33
Made by another company	18	33
Monetary allowances	24	51
Discounts or price reductions	18	17
Cash rebates	6	17
Credit memoranda	–	17

The relative importance of the different types of gifts in direct-buying deals to wholesale buyers is not significantly different when the count is made on the basis of products instead of on the basis of companies. The predominance of credit-memorandum deals in the latter count of selling deals is accounted for by the fact that one company gives credit-memorandum selling deals

on a large number of products. The number of products to which each type of gift is applied in each type of deal to wholesale buyers, expressed as a percentage of the products to which the same type of deal is applied in sales to wholesale buyers, is as follows:

Type of Gift	Direct-Buying Deals	Selling Deals
Goods	88	33
Same goods	73	11
Premium goods	27	22
Made by same company	18	11
Made by another company	9	11
Monetary allowances	30	78
Discounts or price reductions	27	6
Cash rebates	3	6
Credit memoranda	—	66

There is no significant variation in the extent to which manufacturers apply various forms of gifts in either buying or selling deals to various types of wholesale buyers. A tabulation for each type of wholesale buyer on the same bases as those shown above for all wholesale buyers disclosed for each of them a series of proportions almost identical to those appearing in the tables shown.

In deals to direct-buying retailers, as in deals to wholesale buyers, every company giving either buying or selling deals reported using goods deals, but not on quite all the products carrying such deals. Though only a few companies reported direct-buying deals to retailers, each form of gift except the credit memorandum was reported by at least one company in such deals. The one company which reported selling deals to direct-buying retailers uses both same-goods and credit-memo-

randum deals, the latter on by far the greater number of products. The fact that no company reported a particular form of gift in connection with either form of deal should not be interpreted as indicating that such a gift is never used by manufacturers in such deals.

No manufacturer of the sample reported selling deals to retailers who make their purchases through wholesalers, and none reported direct-buying deals to consumers.

II. GROCERY WHOLESALER DEAL GIFTS

In giving deals either to retailers or to consumers, wholesalers, like manufacturers, are confronted with the question "What to give?" The answer which wholesalers give to this question is to be found in their practices. The evidence available on this point is similar to that for manufacturers, but it is possible to present on certain points a comparison between the situation five years ago and the situation at present.

The statements presented below apply to both introductory deals and deals on established products, whether to retailers or consumers. Of wholesalers using deals now the percentage giving each of the two general types of gifts is:

Premiums	42
Other gifts	92

Of wholesalers using deals about five years ago, the percentage using each type of gift at that time is:

Premiums	60
Other gifts	100

Data are not available to determine the proportion of wholesalers who give various types of deals to consumers, but they are at hand to show the percentages

of wholesalers giving deals to retailers who give them premiums or other types of gifts:

Premiums	48
Other gifts	100

III. DRUG MANUFACTURER DEAL GIFTS

In the drug industry the data make it possible to ascertain the gift strategy of manufacturer indirect-buying deals to retailers only.[8] Therefore, in the ensuing discussion the term "manufacturers" will be used to include only drug manufacturers who give indirect-buying deals to retailers, the terms "products" and "assortments of products" to include only those which carry such manufacturer deals, and the term "deals" to include only such deals.

The deal given with the purchase of assortments of goods, which occurs so infrequently in the grocery sample that instances of it are ignored, is important among drug manufacturers. Assortments, as explained in Chapter I, may consist of certain quantities of several specified products, or of the buyer's choice of any combination of the products sold by the deal-giving company. An assortment always means a variety of products, however, and not merely different sizes or colors of the same product. About 30 per cent of the manufacturers were found to offer deals on assortments of revenue goods. However, about 86 per cent of them give deals based on purchases of individual revenue products.

The form of deal given with the purchase of individual revenue products by the greatest number of manufacturers is the goods deal. Combination goods-and-

[8] The data are limited to retailers for reasons given in discussing the drug sample. See p. 51.

monetary deals are sometimes found. Specifically, the following percentages of manufacturers give the specified type of gift:[9]

Goods	91
Monetary allowances	10
Combination of both	2

Same goods are given with individual revenue products by nearly five times as many manufacturers as are premium goods and combinations of the two are given quite frequently, as the following percentages of manufacturers giving goods deals indicate:

Same goods	84
Premium goods	17
Combination of both	12

Usually, companies offering same-goods deals offer a product identical with that purchased, but some offer a product which varies slightly from the purchased item in such superficial characteristics as color, size, and type of package. Of manufacturers using same-goods deals on individual products, the following percentages give,

Identical goods	93
Same goods with superficial differences	9
Combination of both	8

Premium goods manufactured by another company are used by more companies in deals on individual products than are premium goods of their own manufacture. This may be seen from the following percentages of manufacturers using premium deals.[10]

[9] No service deals were reported.

[10] Since the data for the drug industry do not specify in every case whether the gift goods are manufactured by the deal-giving company or by another, conclusions on this point in some cases were drawn from a comparison of the type of product used as a gift with the type sold.

Premium goods made by same company	35
Premium goods made by another company	59
Combination of both	6

Manufacturers seem to find price reductions and cash rebates somewhat more useful than other forms of monetary deals. Discounts are also popular. Since this is an analysis of indirect-buying deals, it is not surprising that credit-memorandum deals are not used by any reporting company. The various types of monetary deals are used by the following percentages of manufacturers using monetary deals on individual products:

Price reductions	38
Discounts	24
Cash rebates	33
Credit memoranda	–
Combinations of discount and cash rebate	14

As in the case of deals on individual products, deals on assortments take the form of goods deals, monetary deals, and combinations of these two. Also, as in the case of individual products, the goods deal is the most prevalent, as will be seen from the following percentages of manufacturers giving deals on assortments:

Goods deals	81
Monetary deals	31
Combination of both	1

Among goods deals on assortments, premium-goods deals outrank all others. That is, the relative position of same and premium goods in deals is reversed in deals on assortments. The percentage of manufacturers giving goods deals on assortments who give various kinds of goods are:

Same goods	27
Premium goods	62
Combination of both	33

Of manufacturers giving same goods in deals on assortments the percentage giving each form is:

Identical goods	75
Same goods with superficial differences	13
Combination of both	13

Likewise, of manufacturers giving premium goods in deals on assortments, the percentage giving each form is:

Premium goods made by same company	35
Premium goods made by another company	68
Combination of both	16

Among monetary deals on assortments, as on individual products, price reduction is the most common. In fact, it is all but universal, since 96 per cent of the manufacturers giving monetary deals on assortments give price reductions.[11] Discounts are given by 4 per cent of these manufacturers, but no other form of monetary deal is given.

The strategy of drug manufacturers in deciding what shall be given in deals is not fully disclosed by the proportion of companies which use various forms of gifts. As was noted in the case of the grocery sample, a manufacturer may find it advisable to use some types of gifts on a larger number of products or assortments of products than he uses others. It is desirable, therefore, to see what proportions of the individual products and of the assortments of products upon which deals are given carry the various types of gifts. In the following table the number of individual products carrying each major class of gift is expressed as a percentage of all individual products; the numbers of products carrying same, pre-

[11] Inasmuch as this count was made from a list of offers presented as deals, all plans listed were counted as deals. If all the facts could have been ascertained, it is possible that according to the classifications of this study, some of the plans here included would have been interpreted as combination sales rather than deals.

mium, and combination same-and-premium goods respectively are expressed as percentages of the number carrying goods; the number carrying each type of same or premium goods is expressed as a percentage of the number carrying same or premium goods respectively; and the number carrying each type of monetary allowance is expressed as a percentage of the number carrying monetary allowances:

Type of Gift		Per Cent
Goods		90
Same goods	80	
Identical goods	93	
Superficially different same goods	7	
Combination of both	6	
Premium goods	15	
Made by same company	31	
Made by another company	63	
Combination of both	6	
Combination of same and premium goods	11	
Monetary allowances		10
Price reductions	60	
Discounts	17	
Cash rebates	20	
Credit memoranda	–	
Combinations of discount and cash rebate	9	
Combination of goods and monetary allowances		1

Scrutiny of this table and comparison of it with the tables on pages 83-84 will show that drug manufacturers vary their strategy somewhat from product to product. Nevertheless, the variation is much less marked than is the case with manufacturers of grocery products.

In the following table exactly the same method of computing as that in the one just preceding is used; the number of assortments of products carrying each type

of gift is expressed as a percentage of the number carrying a more general class of gift:

Type of Gift		Per Cent
Goods		69
Same goods	18	
Identical goods	71	
Superficially different same goods	19	
Combination of both	10	
Premium goods	63	
Made by same company	19	
Made by another company	64	
Combination of both	22	
Combination of same and premium goods	25	
Monetary allowances		30
Price reductions	98	
Discounts	2	
Cash rebates	—	
Credit memoranda	—	
Combination of any of these	—	
Combination goods and monetary allowances		2

Drug manufacturers give, both on individual products and on assortments, the eight different types of gifts: identical goods; same goods with superficial differences; premium goods manufactured by same company; premium goods manufactured by others; price reductions; discounts; cash rebates; credit memoranda; and also combinations of these types.[12] Taking into consideration deals each of which includes two, three, or more types of gifts as well as those each of which involves only one type of gift, 255 different types of gift offers are possible in the sale of one product or product assortment. But even this number does not differentiate

[12] See also, H. J. Ostlund, "The Distribution of Free Deals by Service Wholesale Druggists," *National Wholesale Druggists' Association Bulletin No. 17*, pp. 4-5.

deals based on single products from those based on assortments. It assumes that when item *a* is given with a purchase of item *a* it is the same type of gift as an assortment of items *a* and *b* when given with a purchase of an assortment of items *a* and *b*. However, in the following tabulation, deal gifts otherwise similar are considered to be of two different types if offered both on individual products and on assortments of products. Indicated numbers of types of gifts are given by the following percentages of all manufacturers and carried by the following percentages of all products and product assortments.

Number of Types of Gifts	Percentage of Manufacturers	Percentage of Products and Assortments
One	72	91
Two	17	8
Three	6	1
Four	2	–
Five	2	–
Six	–	–
Seven	–	–
Eight	1	–

As might be expected, the duplication of type of gift in deals on any one product or product assortment is much less extensive than is such duplication in the deals of a single company. A differentiation of these data according to whether the revenue goods are individual products or assortments shows very little deviation from the combined percentages.

From these extensive data on the gift in deal strategy certain conclusions may be drawn. It is certain that what is given varies to some extent with the individual no-

tions of deal-givers and with the individual products they sell. Nevertheless, there are certain very definite general lines of strategy. On established products, at least, goods deals are noticeably predominant. In one form or another they are used by more than three times as many grocery manufacturers as are monetary deals.

In goods deals given by grocery manufacturers premium goods as contrasted with same goods are apparently judged to be more effective the more remote the buyer is from the manufacturer. The importance of premium goods as compared with same goods is greater in deals to direct-buying retailers than in deals to wholesale buyers, in deals to indirect-buying retailers than in those to direct-buying retailers, and in deals to consumers than in those to indirect-buying retailers. The same is true of premium goods manufactured by others as compared with those made by the same company. Premium goods as compared with same goods, and premium goods manufactured by others as compared with those made by the same company, are more important in selling deals to wholesale buyers than in buying deals to them.

Some form of discount or price reduction is the most common type of monetary deal used by grocery manufacturers in deals to wholesale buyers and cash rebates are the least common. Of monetary allowances made to retailers, cash rebates are of the least importance in deals to direct-buying retailers and of the most in deals to indirect-buying retailers. Discounts and price reductions are the only form of monetary allowance made by manufacturers to consumers.

A comparison of drug manufacturer indirect-buying deals to retailers based on individual products with grocery manufacturer indirect-buying deals to retailers

based on individual products shows an even greater predominance of goods over monetary allowances in the deals of the drug industry than in those of the grocery industry. However, in the drug deals same goods are far more important than are premium goods, while in grocery deals the latter are somewhat more important than the former. Except that neither use credit memoranda in deals to indirect-buying retailers the strategy of the drug industry in monetary deals is entirely different from that of the grocery industry in such deals.

If the deal is regarded as a form of price reduction, it is plain that deal-givers have ingeniously varied the forms of price reduction either with an eye to making it attractive in itself or with an eye to making it appear as attractive as an even greater price reduction in strictly monetary form. If the deal is regarded as a "lure to improvidence," there is ample evidence of the capacity of human minds to vary their attempts to influence other minds.

CHAPTER VI

IS THERE DISCRIMINATION AMONG TYPES OF DISTRIBUTORS?

Among deal-givers and deal recipients there is much discussion as to which type of buyer receives the most in the form of deals. To distributors, particularly, the issue is important because of the effect it has upon their competitive position as intermediaries between manufacturers and consumers.

Although many different points of view are stressed in the allegations that discrimination among types of distributors exists in the granting of deals, the essence of the question is, Does any one type of distributor receive as deal gifts more in proportion to its purchases than does another? Such an advantage might be gained in several ways: (1) More sellers may offer deals to one type of distributor than to another; (2) deals may be offered more frequently to one than to another; (3) more advantageous deals may be offered to one than to another; (4) one may take more complete advantage of deals offered than does another. By viewing the evidence available on each of these points a conclusion may be drawn on the major question of discrimination.

We may first ask the question: What proportion of manufacturers give deals to various types of distributors? This question is answered by the following percentages of manufacturers of the sample giving deals on established products to distributors:

Retail buyers	79
Direct-buying retailers	32
Indirect-buying retailers	74
Wholesale buyers	89
Wholesalers	89
Retailer-owned wholesalers	78
Corporate chains	89
Voluntary chains	83

It is obvious that deals for each type of buyer are planned by a considerable proportion of these manufacturers. Wholesale buyers receive deals from a somewhat larger number of manufacturers than do retail buyers, indeed from more than twice as many as do direct-buying retailers. Wholesalers and corporate chains receive deals from more companies than do retailer-owned wholesalers or voluntary chains.

Variation in the types of distributors to which different manufacturers sell may be the cause of the varying proportions of manufacturers giving deals to the different types. To check this possibility a new count was made, taking this factor into consideration. Of deal-giving manufacturers selling to each distributor group the following percentages give deals to each group:

Direct-buying retailers	67
Wholesalers	88
Retailer-owned wholesalers	93
Corporate chains	88
Voluntary chains	88

Viewing the matter in this way the predominance of wholesale buyers over direct-buying retailers is much less striking than it was in the first count, but by no means disappears. By both counts the various types of wholesale buyers receive deals from about the same proportions of manufacturers, except that retailer-owned

wholesalers are recipients from a smaller proportion than the others in the first and a larger proportion in the second count. Thus, taking both tabulations into consideration, it may be concluded that in giving deals manufacturers show about equal favor to each type of wholesale buyer.

Before drawing final conclusions as to the advantages to one or another class of trade as measured by the number of companies offering it deals, it is desirable to consider the situation from still a third point of view. When the wholesaler-retailer channel of distribution is considered as a unit in the distribution of manufacturers' goods, it becomes apparent that deals to retailers, in so far as they are based on sales made through wholesalers, may have approximately the same effect as do deals to wholesalers. That is, both will give the competitive deal benefit to this "orthodox" system of distribution. We may contrast deals which go to the orthodox system with those which go to retailer-owned wholesalers or voluntary chains or corporate chains.[1] When a count was made on the basis of these groupings, it was found that 100 per cent of the reporting manufacturers who use deals on established products give them to at least one member of the orthodox system, and that only 89 per cent give them to any one of the newer types of distributors. Apparently, in the giving of deals on established products the orthodox system is favored by more companies than is the chain-store system. Both of these systems receive

[1] Since both retailer-owned wholesalers and voluntary chains in many cases have very little resemblance to corporate chains, there may be some objection to grouping the three. However, as no manufacturers reported the giving of deals to voluntary chains, or to retailer-owned wholesalers, who did not also report giving them to corporate chains, the results are the same as they would have been if those two classes had been disregarded entirely.

more favor than do independent retailers who buy direct from manufacturers.

A second possibility of discrimination is in the practice of offering deals more frequently to one trade group than to another. Grocery manufacturers were asked to indicate the type of customer to which they give deals most frequently, second in frequency, third in frequency, and so on. The returns to this inquiry, covering both introductory deals and deals on established products, were not sufficient to allow complete comparisons. However, sufficient information was secured to indicate whether the wholesaler-retailer system of distribution receives deals less or more often than do the chain systems of distribution.[2] It was found that about 60 per cent of the manufacturers give deals more frequently to either wholesalers or retailers than to either voluntary or regular chains. The other 40 per cent give deals to the chains more frequently.[3]

When these reports were differentiated on the basis of type of gift used in the deal, it was found that every manufacturer using premium deals reported giving them more frequently to either retailers or wholesalers than to either corporate or voluntary chains. Of the reporting companies giving other types of gifts about half give

[2] Again the question of inclusion of voluntary chains with corporate chains arises. When they are disregarded about 65 per cent of the manufacturers give deals more frequently to either wholesalers or retailers, or both, than they do to corporate chains, and about 35 per cent give deals more frequently to corporate chains. In most cases in which all three groups were ranked, the voluntary chain ranked between the regular chain and the wholesaler-retailer group. (In this inquiry there was no distinction made between voluntary chains and retailer-owned wholesalers.)

[3] This is conclusive only on the assumption that sales are made as frequently to one group as to another. It is possible that the contracts made with chains are sufficiently less frequent than those made with wholesalers to invalidate the conclusion that the chain is at a disadvantage.

them more frequently to one system of distribution and about half more frequently to the other.[4]

We may now examine the third possibility of discrimination by manufacturers among the various types of distributors. This is discrimination by offering more advantageous deals to some types than to others. It must be concluded that if this type of discrimination exists in deals, it takes place largely in introductory deals. No manufacturer reporting on a specific question as to whether differentials in deals on established products are made among types of distributors admitted that such differentials are granted. That there is a tendency to give a larger deal to chain organizations than to other types of buyers in introductory deals is widely believed. No evidence to prove or disprove this belief is available. The fact that a single chain organization may give widespread immediate distribution to a product is the argument advanced by both manufacturers and chain-store heads in justifying advantageous introductory deals to chains. Whether this is a more effective method of securing immediate distribution than is the giving of comparable deals to wholesalers or retailers, or both, whether it is more economical, and whether its effects are more satisfactory in laying a foundation for future distribution, it is impossible to say. In general, it is the type of issue which will appear answerable in different ways to different manufacturers—and the answer will vary somewhat with the product.

It would be further possible for discrimination to arise in actual deal receiving, if, even though all were offered

[4] If corporate chains alone are considered in place of both voluntary and corporate chains, the result from the premium gift tabulation is the same. The result for the "other type of gift" tabulation, however, shows that 65 per cent of the companies give the wholesaler-retailer system more frequent deals.

the same deals, certain types of distributors declined them, while others took full advantage of them. But in deals on established products there is little or no discrimination on that ground. True, an occasional buyer is reported as too small to handle a certain deal. Further, it was stated that certain chains (a similar statement was not made for any other class of distributor) refuse some deals because they do not like the mechanics of operation. While it is also true that there are varying preferences as to types of deals received, a compilation of returns shows that in general one class of trade is as ready as another to seize upon deal offers.

In conclusion it may be said that in the giving of deals on established products manufacturers do not show any marked discrimination in favor of or against any one particular type of distributor. The slight advantage to one type apparent when the situation is viewed from one angle disappears or is shifted to another type when the situation is viewed from another angle. However, there seems to be a consistent, though not very important, tendency to favor the wholesaler-retailer system of distribution as compared with the chain system of distribution.

CHAPTER VII

DEAL DIMENSIONS AND THEIR EFFECTS

The construction of a deal involves consideration of four dimensions: time, quantity, area, and value. Time elements involve administrative problems, and variation in time elements and their administration leads to various economic effects. Quantity considerations also present administrative problems and may be so devised as to bring about discrimination and other economic consequences. The same is true of area. In planning the deal area and in administering regulations regarding it a deal-giver is confronted with puzzling issues. He may discriminate among buyers and bring about effects much more far reaching than those immediately discerned.

The value dimension of deals, that is, the monetary value of what is given, is of particular importance. From the administrative point of view, the variations in the value of the deal on a given product represent the variations from standard price which the administrator believes are desirable from time to time. The determination of the value dimension of a deal is as important as the determination of price. Indeed, in effect it is a determination of price. From an economic point of view, the variation in the value of the deal on a given product measures the amount below standard price at which the actual price is placed. It measures the degree to which standard price is brought toward, or even below, a competitive level.[1]

[1] Except where otherwise indicated data used in this chapter apply only to deals on established products.

I. TIME

Time in relation to deals has two different aspects. One is duration; the other is occasion. Both of these are of significance to deal-givers in planning their operations, and variations in either or both produce different economic effects.

A. Duration

To any who regard deals only as occasional variations from a standard price it is surprising to discover that there are both temporary and continuous deals.

1. Continuous Deals

A continuous deal may be one in which the thing given is always the same in character and amount; it may be one in which either the character or amount, or both, of the gift change, but where some form of deal is always present. Of the deal-giving grocery manufacturers of the sample, 39 per cent reported that they sell products on which deals are used continuously. Of the products carrying deals, 27 per cent carry continuous deals.[2] Each of a few manufacturers reported continuous deals on two or three products. Altogether there are some twelve different products on which some manufacturers find continuous deals to be effective.[3] In some lines it is traditional for manufacturers to give free goods with every sale. The continued use of coupons, for example, constitutes a continuous deal which may be a monetary, goods, or service deal, depending upon the redemption policy of the giver.

[2] The question asked of manufacturers was: Are there deals on this product which are "on" continuously? It seems that continuously was usually interpreted as meaning for a year or more.

[3] These products are spices, kitchen cleaners, toilet soap, cocoa, malted milk, baking powder, waxed paper, cocoanut, salt, tapioca, starch, and tea.

A large proportion of grocery wholesalers (81 per cent) buy some products upon which deals are quoted as a continuous price method. Data from these wholesalers indicate that on about two-thirds of the products which carry continuous deals the value of the deal is always the same.

The data for the drug industry, covering deals both introductory and on established products, do not make possible a classification of drug deals as continuous or temporary because they cover only a seven-month period. However, it was found that 39 per cent of these drug manufacturers gave to retailers deals which continued for the whole period covered by the data. Of the products to which deals were applied in sales to retailers, 26 per cent carried continuous deals for the whole period. As it was not possible to ascertain how much longer any of these may have been in operation, any proportion of them may have been continuous deals.

Continuous deals are not limited to any one class of trade. Some grocery manufacturers offer them to all types of wholesale buyers, and others to direct-buying retailers as well. One manufacturer reported a continuous deal on a given product for consumers.

The types of gifts used in continuous deals also cover the range of possibilities. Extra merchandise of the same kind as that purchased is the type of gift most frequently used, but monetary allowances and premiums were also reported.

Wholesalers make less frequent use of continuous deals than do manufacturers. Only about 10 per cent of the deal-giving grocery wholesalers reported that they originate continuous deals, and in each instance the amount of the deal gift varies from time to time. Trading stamps, when they are employed continuously, con-

stitute the chief form in which retailers use such continuous deals.

The economic aspects of continuous deals are interesting and varied. If the gift remains the same, the continuous deal is only a complicated way of operating a standard price. If the gift is free goods, the complication is in the fact that the price covers more than it is said to cover. If the gift is a monetary consideration, the price is less than is actually stated. If a premium is continuous, the fact is that more than one article is offered at a single price. The effect of continuous deals with no variation in what is given is the same as though no deal at all were given. If what is given is varied, the continuous deal is similar to a continuous series of temporary deals. The only contrast is that in the former case some kind of deal is known to be always present. If the continuous deal that does not change is given only on quantities greater than the usual size of a single purchase, it is in effect a quantity discount. If such a deal is available only to certain classes of trade to which the vendor sells, it is a trade discount and may be regarded as discriminatory if it constitutes a variation from the recognized cost differentials in dealing with different classes of buyers.

2. *Temporary Deals*

Temporary deals are applied for greatly varying periods. The shortest temporary deal reported by grocery manufacturers of the sample lasted for twelve days, the longest for 350 days. Some deals are offered for as short a period as one day. From the standpoint of the purchaser some may be thought of as even more abbreviated than their stated duration might suggest, as they sometimes permit only one purchase on the deal basis. In such

deals if a customer makes a purchase at the opening of the allotted period, the deal is closed thereafter so far as he is concerned.

The advantage attributed to given deal periods by grocery manufacturers using them is expressed in the following table. The proportions of manufacturers giving temporary deals, of products carrying such deals, and of individual deals which are "on" for various periods are tabulated.

Number of Days	Percentage of Manufacturers	Percentage of Products	Percentage of Deals
12	11	4	1
14	22	16	7
19	11	4	1
20	11	4	1
22	11	4	1
25	11	4	1
26	11	4	3
30	33	56	40
35	11	4	1
40	11	16	7
45	11	4	1
49	11	4	1
56	11	4	1
60	33	20	10
75	11	4	1
90	33	24	11
120	22	12	6
180	11	4	1
230	11	4	1
270	11	4	3
350	11	4	1

In terms of the proportion of grocery manufacturers who use deals of various durations, periods of several lengths—30 days, 60 days, and 90 days—are equally popular. About one-third of the reporting manufacturers

put on deals for each of these periods. When judged by the number of products to which deals of the specified duration are applied, the 30-day deal is outstanding. It was reported for 56 per cent of the products on which deals are offered. Next in order from this point of view are 90-, 60-, 14-, 40-, and 120-day deals respectively. Approaching the matter from the standpoint of the number of individual deals which are "on" for the stated periods, 30 days is the most common period. About 40 per cent are put on for this length of time. Deals of 60 and 90 days are the next most frequent.

In the drug industry the evidence indicates that the distribution of deals in accordance with duration is similar to that in the grocery industry. The proportion of drug manufacturers giving either temporary or continuous deals to indirect-buying retailers who give them for indicated durations and of products carrying such deals which carry them for indicated durations are as follows:[4]

Approximate Number of Days	Percentage of Manufacturers	Percentage of Products
1-30	28	24
31-60	27	21
61-90	15	17
91-120	14	12
121-150	6	4
151-180	6	3
181 or more	39	26

[4] The data for drug manufacturers cover deals both introductory and on established products for the months of October, November, December, January, February, and March-April respectively. Although any deal in operation during October may also have been in operation prior to that time, for purposes of this tabulation it has been considered as starting with October. Similarly, deals in operation during March-April, unless a termination date was stated, have been considered as terminating at the end of April. Also, every deal for which no beginning or ending date was specified was assumed to have been in operation during all of the month or months in which it was listed.

Since deals in operation for a period of more than 180 days, that is for more than six months, must include all continuous deals, and since deals of six months or more are almost the only ones reported of more than four months' duration, it seems reasonable in a discussion of temporary deals to consider only those operating for a period of six months or less. It will be seen at a glance that the shorter deals are used by more companies on more products than are the longer ones. Indeed, each period is used by more companies and on more products than is the next longer period. Thus, 30 days or less appears to be the most popular length of drug manufacturer indirect-buying deals to retailers.

The stated period of the deal is by no means always the effective period. Although nominally the time-limit is to be as announced, it is made elastic by various administrative practices. This elasticity sometimes has important economic effects. Sometimes it may result in discrimination among buyers; sometimes it may lessen or eliminate discrimination which would otherwise exist.

One administrative practice which in effect lengthens the period of the deal is extended credit datings. This means dating the invoice on goods purchased during a deal period as of a time later—perhaps 30 days—than would normally be the practice. Customers are thus able to buy more stock during the deal period than their credit standing would otherwise permit. About one-fifth of the manufacturers reporting on the point grant extended credit datings, at least at times. While all of these companies stated that it is not a general practice, certain ones handling rather extended lines indicated that on certain occasions such datings are given on practically all of their products. The periods for which the credit is granted are largely left open to the administrative decision of the moment. Some companies reported that these credit dat-

ings are for 30 days, others for 60-90 days, others that they are "used to meet competition." In some deals the situation is reversed, the credit period being shortened. Deals, particularly by retailers to consumers, are indeed sometimes limited to cash sales. From the point of view of tactics, extended dating is obviously a device for "loading the buyer." Abbreviation of the credit period may serve one or both of two ends. It may prevent the customer from overloading, which is desirable with perishable or semi-perishable goods, or it may be a method of securing cash.

Extended credit dating does not appear to result in discrimination unless given to certain customers only. Thus there is discrimination if the extended dating is applied to particular customers or particular types of trade "to meet competition," but there is not discrimination if it is offered to all customers to meet competition in general.

A second practice which results in extending the effective period of the deal is giving "booking privileges." These usually permit customers to place orders within the deal period at the deal price for goods to be shipped after the deal closes. Such privileges deliberately place the price structure in a paradoxical situation for a period after the deal is closed. The recipient of the deal, if he passes it on, may for a considerable time be selling at a price not justified by current quotations. The deal-giver, on the other hand, may for a time be asking more than the deal receiver will pay on the basis of his own selling prices. Approximately 15 per cent of the deal-giving grocery manufacturers reported that they make some use of advance booking privileges.

The reports of drug manufacturer deals to retailers did not regularly include information as to this practice,

but in two cases it was given as an extra comment. One comment stated that the deal would be offered on future orders only, and the other (a deal which was not reported after November) that "all orders for Deal No. 2 must be taken before March 1, and delivered not later than April 1st."[5]

From the point of view of the seller, the use of advance booking privileges has a distinct advantage over the practice of giving a deal of longer duration. They enable the seller to secure orders in advance. A deal may be a cheap price to pay for an offset to possible hand-to-mouth buying. There are economic effects as well. With orders in advance, production may be adjusted to the most economical schedule.[6] Booking privileges appear to be discriminatory only if they are offered to certain customers and not to others.

Still a third way of extending the effective period of the deal is to refrain from restoring the regular price promptly at the end of the deal period. Only a few companies reported on this point. Of those which did report about three-eighths always restore price promptly and about one-eighth never do. The other half vary their practice from deal to deal. One company says regular price is restored promptly in deals to chains but not in deals to other wholesale buyers, retailers, or consumers. Another restores price promptly on same-goods-direct-buying deals to wholesale buyers but not on monetary deals to wholesale buyers or on any deals to retailers or consumers. Another closes promptly same-goods-direct-

[5] "Deals for November," *Selling and Service*, November 1932, Vol. III, p. 39. (Unsigned.)

[6] But see pp. 112-13 for a discussion of deals put on to encourage irregularity, not stabilization. For variations in the degree to which orders are placed in advance see Leverett S. Lyon, *Hand-to-Mouth Buying*, Chaps. IV-VI. For the relation of this to production see the same, Chap. XIX.

buying deals to wholesale buyers but is not so strict in administering direct-buying deals of premium goods manufactured by others to retailers. Still another company restores price promptly on count-and-re-count monetary or same-goods selling deals to wholesale buyers or direct-buying retailers, but does not do so on any form of buying deal to wholesale, retail, or consumer buyers.

Except perhaps in the case of the one company which reported more prompt restoration in deals to chain stores than in deals to other wholesale buyers, there is no evidence of discrimination in varying the closing date for one class of trade as compared with another. Yet any failure to restore regular price promptly does result in discrimination. It puts at a disadvantage companies which, taking the closing date seriously, make their purchases within the announced period. It may involve these companies in securing, and thus being obliged to carry, larger stocks than would otherwise have been the case. It further discriminates against them because, having committed themselves, they have alternate opportunities open to them for a shorter period than do competitors who decline to purchase within the announced deal period.

The foregoing observations are made on the assumption that all possible customers know of the extension of the deal. The discrimination is obvious if only those who have not made extensive purchases are informed of the extension, or if those who did not purchase are given the opportunity to do so after the deal closes without any official announcement. Either instance is merely a discriminatory price for certain customers for the period of the extension.

Deal periods are further rendered elastic by practices

which vary the time at which customers are notified of the beginning and end of deals. The deal begins to have an effect on the purchases of recipients from the date of its announcement. Similarly, the buying of the recipient will be influenced by the time when he is aware of the termination of the deal. Manufacturers notify their customers on the day the deal becomes effective, or prior to the opening day of the deal, or subsequent to the official opening date.

The practice of a single manufacturer often varies from deal to deal, and more than one practice may be used in a single case. The following percentages of the manufacturers using temporary deals to the wholesale and the retail trade respectively notify recipients of the beginning of such deals:

	Wholesale Trade	Retail Trade
On opening date	75	91
Prior to opening date	42	18
Subsequent to opening date	–	45

The following percentages of such manufacturers notify the wholesale and the retail trade of the termination of temporary deals:[1]

	Wholesale Trade	Retail Trade
On termination date	42	38
Prior to termination date	83	88

Differences which commonly exist in the moment of notification of a single deal offer give rise to discrimination. There is no evidence that sellers deliberately plan these differentials, but they arise from the employment of certain methods of notification, chiefly the use of salesmen. In so far as salesmen reach customers at different

[1] Obviously notifications of termination which are simultaneous with announcements of the beginning of deals are notifications prior to termination date.

times, the discrimination occurs. It may involve as much as several days. To a lesser degree differentials arise from time variations in the sending or delivery of notifications by mail, telegraph, or telephone.

The importance of a variation in time of notification depends upon the length of the deal period. A day's difference is significant, for example, in a five-day deal. This fact makes it important to note the frequency with which various methods of notification, particularly the use of salesmen, are applied. While some manufacturers rely upon one method only, others use all possible methods in the course of their deal experience. The following percentages of manufacturers giving deals to the wholesale and retail trade respectively reported the indicated methods of notifying such recipients of the opening and closing dates:

	Opening Date	Closing Date
Wholesale Trade		
Own salesmen	85	91
Mail communication	77	73
Telephone	15	18
Telegraph	15	9
Brokers	8	9
Retail Trade		
Jobbers' salesmen	77	60
Own salesmen	92	80
Mail communication	23	20

One element of discrimination related to date of notification lies in the fact that when buyers are notified of a forthcoming deal they have on hand different amounts of stock. Some may be well loaded when the deal opens. Others may meet the deal with empty shelves. The longer in advance all are notified, even if at the same hour, the less the differential because the greater the

opportunity for all to dispose of inventories. To avoid discrimination entirely, notification of any deal (assuming floor stocks are not protected) must be given far enough in advance to permit the buyer with the largest or slowest moving stock, or both, to dispose of all goods on hand before the deal opens.

What of the period of notification of termination prior to the close of a deal? So far as buying deals (direct or indirect) are concerned, it appears that no discrimination results even if the dates of notification are slightly different, provided each customer is given time to make (and perhaps to finance) a final purchase after receiving notice. But in selling deals there is more probability of discrimination in favor of those who receive earlier notice. Selling requires more organizational effort, and definite knowledge as to when the selling deal will end is an effective sales weapon, particularly if the end is near.

A still further variation in the effective duration of a deal arises from the practice of "protecting" floor stocks, sometimes called "evening" stocks. The practice consists of permitting the deal arrangement to apply to stocks which customers have on hand at the time the deal opens. "Protection" may be given at the beginning or at the end of the deal period. When given at the beginning, monetary allowances or free goods, as the case may be, are usually given on the stocks on hand exactly as though they had been purchased on the deal basis. The same practices may be followed at the close of the deal. Floor stocks may be protected at the end of the deal period only by permitting the customer to purchase, at that time, an additional amount identical with that which he had on hand at the beginning, but on deal terms.

The effect of protecting stocks, whatever the method

used, is to make the deal cover the period within which floor stocks were purchased. The number of manufacturers who reported protecting floor stocks, at least on some of the products on which they offer temporary deals,[8] is just about the same as the number who reported not protecting stocks of at least some of the products on which they give deals.

The method of ascertaining the quantity of floor stocks entitled to protection under a deal plan, like the method of determining the quantity sold under a selling-deal offer, confronts the giver of deals which promise stock protection with two additional administrative problems. The first is to determine the amount of floor stocks involved. This may be done by a count made by the manufacturer's own representative, or by relying upon the customer's written or verbal statement. Reports of manufacturers who protect floor stocks of their customers under deal plans show that while the practices even of a single company on a single product may vary, a count by their own representative is the method used by most. The percentage of reporting manufacturers using each is:

Count by own representative	100
Customer's signed statement	75
Customer's verbal statement	13

Every company reporting the use of stock protection in deal offers employs the count-and-re-count method of checking at least at times. A large proportion make their own count and require the customer's signed statement on the same deal.

[8] An interesting corroboration of manufacturers' data on this point was found in the reports of wholesale grocers who replied to a question as to the proportion of manufacturer direct-buying deals on which they were given floor-stock protection. The average of the percentages reported is approximately 50 per cent.

Almost every company which includes stock protection in its deal offer believes that "irregular" claims are sometimes made by deal recipients. Estimates of such claims range from 10 to 35 per cent of the quantity of stocks for which protection was asked and from 5 to 25 per cent of the number of claims made. Manufacturers have found no satisfactory method of dealing with claims which they regard as irregular. Some deal with "each case on its merits," others "adjust only on certified count by own salesmen." Others "challenge but accept if customer persists." More than one company reported watchfulness of or refusal to buyers believed to have made excessive claims.

Protection of floor stocks also requires a decision as to how the adjustment shall be made. While credit memoranda are used for this purpose by about three-eighths of the companies which adjust, additional free goods are employed by all of them.[8]

Protecting floor stocks, in addition to being a way of adding to a deal period, is a method of reducing or eliminating the discrimination which arises from failure to notify all buyers far in advance of opening dates. The fact that about half of the manufacturers reporting on the point do not protect floor stocks on deals gives emphasis to what was said in the preceding section (pages 107-09) about discrimination by several dates of notification. Protection of floor stocks for deals is similar to guaranteeing against price declines. Some vendors take the view that as deals are only a special and temporary price reduction, they do not justify protection as do general price reductions. Indeed, it is said that some companies use deals instead of price cuts for the particular

[8] Although in trade talk one hears of cash adjustments, no manufacturer reported them.

purpose of avoiding the necessity of such protection. (See pages 127 and 133.)

B. Occasion

The second time question is, When? Obviously the continuous deal requires no thought as to when it shall be applied unless it be to the question, Shall it be continued? If a product carries a continuous deal, the nature of which is varied from time to time, there is the problem of when to change the gift, but this is a question of changing bait, not of when to go fishing.

If, on the other hand, temporary deals are to be used, the occasion is a matter of importance. Aside from the use of deals for introducing products (for discussion see pages 122-26), occasions relate chiefly either to seasons or to special combinations of circumstances which make a temporary concession from standard price appear desirable. Some temporary deals, such as those which are seasonal, occur regularly; others, such as those designed to meet peculiar sets of circumstances, occur irregularly and may be termed opportunistic.

The seasonal influence is important in timing deals. Nearly half of the companies advising on whether they put deals into effect on some products at special periods of the year said that they do so. But only about 40 per cent of the products on which deals are used by these companies ever carry deals determined by the seasonal influence. No evidence was given, although the question was suggested in the questionnaire, that seasonal deals are more appropriate to one class of trade than to another. Spring and fall are the deal seasons most often mentioned, though summer and winter were also cited. Lent and the canning season were mentioned.

In every instance where explanation was given for the use of seasonal deals it ran in terms of lending added

vigor to buying which would in any event have been above average, or of making the season for such buying begin slightly earlier. Manufacturers reported, for example, that they put on seasonal deals "during the heavy selling season," or "during the heavy consuming season," or "just before the heavy buying season normally opens." Clearly in these seasonal deals the purpose is to encourage other influences toward heavy buying rather than to hold sales up by lowering prices in dull periods. Economically, therefore, the seasonal deal, as used by grocery manufacturers in sales of established products, is meant to enrich an already fertile field rather than to restore vitality to an exhausted or depleted one. It is not used as a stabilizing device.

A study of the drug sample gives little indication that there is particular seasonal influence in applying deals either introductory or on established products. Although a great many offered in November and December were called Christmas deals, there were deals offered by somewhat fewer drug manufacturers on somewhat fewer products in these months than in the months immediately following.

It seems probable from the evidence available that opportunism plays an even greater part in the timing of deals than does seasonality. Some 35 per cent of the grocery manufacturers of the sample who use temporary deals on established products reported that they give deals on some of their products whenever they believe a price concession might be desirable. It will be recalled that about 40 per cent of the same group of companies reported that there are special periods of the year when temporary deals on certain of their products are put into effect. What is the practice of the 25 per cent of these companies which reported that neither of these state-

ments describes their plan? In view of the form in which the questions on timing were asked it seems probable that most of this 25 per cent use opportunistic deals.

The economic significance of deal-giving whenever price concession seems desirable is great. It indicates that a very large proportion of manufacturers of standard-price merchandise have at hand and utilize a method of modifying their standard price in the direction of a competitive level. True, the deal is not called a price reduction by all such manufacturers. By some it is not even recognized as such. Manufacturers regard such deals indeed as ways of avoiding price concession. Moreover, there is no certainty that deals bring the price to the precise point to which competition in standardized goods, priced only in monetary terms, would bring it. Nevertheless, it works definitely in that direction. The widespread use of the deal in this respect is one of the outstanding evidences of a considerable degree of competition in the area of semi-monopoly.

II. QUANTITY

Deal-givers must determine whether they will place limitations upon the quantity of a product which may be purchased on the deal basis. If a deal were without limit of time, the deal price would be the standard price. Lack of limitation on quantity tends in the same direction to the extent that buyers will purchase supplies adequate for extended periods. A curtailment of the quantity which may be purchased during a deal period has an effect similar to that of shortening the deal period.[10] The reverse is equally true.

[10] This is similar to the situation when the period of a deal is limited to a single purchase, in which case even though the period of the deal is nominally long, it ends for any individual buyer as soon as he makes a purchase.

About 30 per cent of the grocery manufacturers who give temporary deals on established products place some limitation, at least in some of their deals, on the quantity that may be ordered during a deal period. In all cases in which explanation was given it is evident that the limitation is placed to prevent the customer from extending the effect of the deal by purchasing what the deal-giver regards as an undue quantity. The limitations reported include "a week's supply," "30 days' supply," "a quantity which would not give more than a dozen units of a given type of premium," and "a quantity which can be moved in a reasonable time." Of two companies which allow each buyer only one order on each deal offer, one limits the amount of the order but the other does not.

Drug manufacturers also place maximum quantity limitations on their deals both introductory and on established products. Rather than emphasizing the supply appropriate to specific customers for certain periods these manufacturers (at least in indirect-buying deals to retailers) more commonly place the maximum as a definite quantity for any customer. Drug-deal maxima are phrased in such terms as: Purchase of not over twelve dozen per order; purchase of not over 24 dozen in twelve months, or eight dozen in any one month; only one deal to each store; not over three dozen packages of free goods per customer; not over three deals per store or 15 to any organization, even though it may have more than five stores; the purchase of not over $20 worth of goods.

Grocery manufacturers in certain cases set the maximum quantity by central office authority. Such central determination is obviously involved in deals where a definite maximum is prescribed for each purchaser. But

in a larger number of instances the maximum supply to be purchased was said to be left to the decision of field representatives. Although at times the discretionary power of the representative is limited, he is largely a free agent carrying out policies which require judgment as among buyers.

The fixing of the maximum quantity to be purchased on a deal unavoidably results in certain discriminations among buyers unless it is so large that no buyer would reach the limit even if there were no restriction. If the maximum amount which may be purchased is made uniform for all buyers, it is obviously unlikely that it will be equally appropriate to all customers. On the other hand, if adjustment of the maximum is left to the discretion of field representatives, there is reasonable certainty that different representatives will interpret somewhat differently such "principles" as a reasonable amount, a week's quantity, a quantity which can be moved in a reasonable time, and the like. Nor is a single representative certain to intepret such principles with complete fairness to all buyers.

Quantity limitations, as both grocery and drug samples show, are also sometimes minima. In minimum limitations discrimination again appears in that those to whom the minimum or a larger quantity is a normal purchase are advantaged as compared to those for whom the minimum is unduly large. There is no discrimination if the minimum is so small that it is not larger than a purchase desirable for the customer who buys in the smallest quantity except that there may be discrimination if the normal purchase, though larger than a minimum quantity, is smaller than an even multiple of the minimum quantity.

III. AREA

A given deal on a given product may be applied nationally or in any less extensive territory. Somewhat less than half of the manufacturers' sample reporting on the area covered stated that they use local or territorial deals. Though the data show that some drug manufacturers use local deals, the proportion using them is not known. Several companies apply local deals to some of their products but not to others. Grocery companies using both national and local deals reported no differences in general methods or times employed, but two points of strategy were made. One is the use of local deals to meet other local competitive deals or price cuts; the second is to stimulate sales in districts where seasonal or other circumstances would otherwise induce a dull period.

Infiltration of deal goods or prices from the deal territory into contiguous areas is the chief administrative problem of local deals. The problem arises in several ways. Wholesalers in deal territory seize the opportunity to invade adjacent non-deal territory and to reach customers unattainable when prices are uniform. When the value of the deal offer exceeds reshipment costs, it is profitable for such buyers to re-ship goods to branch houses outside of the deal territory. Chains make delivery to their stores outside of deal territory.

While some manufacturers reported no serious difficulty with unauthorized extensions of deal territories (in certain cases because they sell only to retailers), others reported the use of precautions to control the deal area. The simpler forms of control are: notification of the trade as to the specific territory to which the deal applies; and limitation of shipments to the deal territory, sometimes supplemented by precautions against diversion in

transit.[11] More drastic methods go so far as "to require border customers to substantiate shipments by copies of invoices or shipping tickets."

About 88 per cent of the grocery wholesalers believe that they are offered manufacturer deals on nationally advertised products applicable only to local territories. It is interesting that half of those reporting on methods used by manufacturers to restrict local deals to local territories declared that no definite provision for restriction is employed other than informing the wholesaler or limiting the shipments to the prescribed territory. Other wholesalers reported all of the devices which manufacturers themselves described. Several stated that local deals to retailers were controlled by having them offered only by or under the supervision of the manufacturer's own salesmen.

Wholesalers themselves originate deals for purely local territories, that is, for subdivisions of the territory they normally cover. However, such deals are less than half as common among them as they are among manufacturers. Of wholesalers who use deals, about 18 per cent apply at least some of them to only part of the territory in which they sell. The wholesalers' problems of administering such deals are obviously identical with those of manufacturers.

All deals in limited parts of the territory of a company whose prices are otherwise uniform are necessarily discriminatory in the sense that certain customers are offered advantages not offered to all. It is arguable that a given manufacturer or other deal-giver may give deals

[11] For example, declining to ship so that goods can go to a wholesaler's branch in non-deal territory. Freight costs tend to prevent the wholesaler from making re-shipments himself. Truck transportation works against the manufacturer's effort at control.

in one territory and not discriminate, provided he can actually prevent the deal goods from encroaching upon the sales of his customers in other territories. It must be realized, however, that if manufacturer *M* gives a deal in territory *B* not given in adjoining territory *C*, *M's* customers in territory *B* are rendered more impregnable to competition from *M's* customers in territory *C* without any basis in an added efficiency. *M's* customers in territory *C* may, even if improving methods would justify their invasion of territory *B*, be precluded from advancing by the special price advantage given to customers in territory *B*.

IV. VALUE

As was pointed out in the introductory statement, the value dimension of deals represents the variations from standard price which sellers apply to their products and, from an economic point of view, the degree to which standard prices are varied in the direction of competitive price. It is possible for a deal to carry a product below what would be a competitive price in an open market, for example, if the deal is used as a leader.

Efforts to measure deal values bring not too satisfactory results. In the first place in many cases it is impossible to measure the value of premium deals from the data obtained. The nature of the data handled requires that the measurements given below be taken as reasonable approximations rather than as precise measurements. Such approximations are given for both of the samples studied. Values of goods deals are expressed as percentages of the combined standard price of the revenue and the deal goods; values of monetary deals as percentages of the standard price of the revenue goods.

In the grocery sample it will be seen that deals to

wholesale buyers are as low as 3 per cent and as high as 33 per cent. This means that the wholesale buyer in the one case received a deal gift equivalent to a 3 per cent discount and in another a 33 per cent discount. The value of deal gifts given by the grocery manufacturers, expressed as percentages of the combined standard price of the deal and revenue goods in the case of goods deals and of the standard price of the revenue goods in the case of monetary deals, is shown below:

To wholesale buyers:
  Extremes, 3 per cent, 33 per cent
  Arithmetic average, 10 per cent
To retail buyers:
  Extremes, 3 per cent, 33 per cent
  Arithmetic average, 10 per cent
To consumer buyers:
  Extremes, 2 per cent, 74 per cent
  Arithmetic average, 25 per cent

The value of indirect-buying deals given by drug manufacturers to retailers, in the same terms, may be expressed as:[12]

Extremes, 4 per cent, 50 per cent
Arithmetic average, 14 per cent

The data are not adequate to make generalization safe. However, the evidence available on grocery manufacturer deals indicates no significant variation in the value of one form of gift as compared with another in the case of deals to wholesale buyers; a greater advantage from goods than from other types of gifts in deals to retailers; and the largest reduction in the form of mone-

[12] The average value of certain drug manufacturer indirect-buying deals to retailers expressed in the same terms is found to be 12.6 per cent by H. J. Ostlund in his study, "The Distribution of Free Deals by Service Wholesale Druggists," *National Wholesale Druggists' Association Bulletin No. 17*, pp. 25-26.

tary allowances and same goods rather than of premium goods in deals to consumers. In giving premiums to consumers, grocery manufacturers appear to make larger reductions when goods of their own manufacture are employed than when goods manufactured by others are used. In the case of drug manufacturer deals to retailers the average value of premiums appears to be somewhat larger than that of other forms of deal gifts.

It will be seen from these summaries that the value of deals is not insignficant. To the seller it represents a wide range within which to find the most advantageous price, and to the buyer a very considerable reduction from standard price. Without knowing what the price level would be if the goods were graded and sold in the open market, it is, of course, impossible to say how closely deal price represents an approach to competitive price. From the administrative point of view it is important that sellers of standard-price branded merchandise have some method such as the deal to give their prices some flexibility. In periods of generally declining prices if the prices of a particular seller remain rigid, he stands in great danger from the competition of private brands and other substitutes. By using the deal or some other form of price variation, he protects himself in some measure against this danger. Some method of price variation, such as the deal, is equally important from the point of view of the public. It makes it possible for buyers, whether wholesalers, retailers, or consumers, to purchase goods at a price much nearer the competitive price than would otherwise be the case.

CHAPTER VIII

PURPOSES OF DEALS AND INCIDENCE OF DEAL BENEFITS

While the general purposes of all deals, as of most marketing activity, is to extend sales, more specific ends are sought in applying deals to varying situations. We have seen that a broad classification of deals in terms of purposes groups them as introductory deals and deals on established products. It has been shown that while in many instances the line between these two forms of deals is clearly marked, in others a deal occupies a twilight zone of purposes which would make its classification in either group possible. In the following quantitative statements deals have been classified as introductory or otherwise according to the interpretation of the reporting companies.

I. INTRODUCTORY DEALS

The purpose of deals sometimes termed introductory is to create a new market for a product in some one of the ways discussed in earlier pages.[1] Either the revenue goods or the deal goods may be new in the territory.

Some 63 per cent of the manufacturers who use deals do so in part for introductory purposes. Indeed, 10 per cent use them for no other purpose. Inquiry among members of the National Association of Purchasing Agents disclosed the fact that 62 per cent of them are offered introductory deals at times. It should be noted, however, that this is no very accurate measurement of the

[1] See pp. 23 and 28.

proportion of deal-givers who make such offers to purchasing agents. Two or three manufacturers who sell widely might be responsible for the greater part of this percentage.

From both an administrative and an economic point of view, the introductory deal is an extremely interesting device. Many manufacturers state that it constitutes one of the most effective weapons, if not the only one for "breaking into" a territory in which a comparable competing product is already well established. Similarly, it is one of the most effective devices for gaining consumers' attention or shifting it from the continued purchase of a familiar product to experimentation with a competing product. When used for breaking into a new territory, the introductory deal, in the form of either a monetary consideration or free goods, varies from a small percentage to an almost complete gift. One of the most common practices in deals to both corporate and voluntary chains is to give one or more cases of goods per store free with an introductory purchase. Allowances similar in amount are made as deals to wholesalers for introductory purposes.

The originator of introductory deals presents his strongest argument for them when he claims that they are the least expensive available method of introducing a new product. As compared with the alternatives, the use of specialty salesmen or advertising extensive enough to accomplish the result, he regards introductory deals as highly economical in many instances. Indeed, it is a common statement, of manufacturers at least, that for the introduction of new products in highly competitive markets such deals are absolutely necessary.

The growth of chains, both corporate and voluntary, appears unquestionably (although no data are available

to prove it) to have greatly enhanced the importance of introductory deals given by manufacturers. A deal to the wholesaler who is without voluntary chain connections gives no absolute certainty of stimulation of retail distribution of the new goods. A deal to the retailer requires a variety of contacts and explanations which involve cost, as does the securing of retailers' orders for wholesalers by specialty salesmen. A single arrangement with the central office of a corporate or voluntary chain may, for a relatively small selling cost, place the new goods in hundreds of retail outlets, with the certainty that they will be available to the consumer.

The utilization of all introductory deals, whether to consumer, retail, or wholesale buyers, is subject to the same analysis as is the use of special prices for introductory purposes. It may be criticized, as the use of special prices may be, on the ground that a directly competing product—indeed a product that competes only indirectly—in an established territory has a vested right which should not be attacked by pricing an invading product lower than it is priced in other markets. When this is done, in a sense it always constitutes local price cutting.[2] Whether it may be regarded as local price cutting with a view to obtaining a monopoly or injuring a competitor is a matter of intent which objective evidence can scarcely disclose. The manufacturer using this device typically declares himself as "intending to get a share" of the market in question. Obviously his getting such a share is to the dissatisfaction of his competitor, but at what point this dissatisfaction is to be construed a legal

[2] The analysis as here stated applies to a product already established in some territories. If the product is an entirely new one, the practice is not local price cutting, inasmuch as there is no established price. Deals, being in effect prices below standard price, are special prices.

injury is a question which only a court can answer. Equally obvious is the fact that the invader will accept a large share, probably a monopolistic share, if he can secure it. But whether it is his intent to secure such a possible monopoly when he initially invades is another matter, and one impossible of determination. Is one to conclude that if a monopoly is secured it was intended; that if not secured, it was not intended?[3]

The argument for the introductory deal as a special price is to be found in the part which the manufacturer plays in introducing variations from the old and the accepted by offering new opportunities to distributors and consumers.[4]

In the general mores of the trade the use of deals is definitely regarded as less questionable practice for introducing products than is the use of special prices. To the question "Are special prices used?" there were such replies from manufacturers as:

> The list prices are never changed but attractive free deals offered.
>
> Nothing beyond a free deal available to all trade alike.
>
> Special prices to the extent of providing an introductory offer —one package free with three or one with one—and occasionally the use of a premium tied up with sale.
>
> We use premiums in preference to special prices.

Manufacturers not infrequently describe as introductory deals situations in which they furnish their product to wholesalers or corporate or voluntary chains, without charge, but with the purpose of getting their merchandise

[3] The relevancy of this question is to be found in those rulings of the Federal Trade Commission and the courts which declare that local price cutting with the intent of injuring competitors or with the intent and effect of securing a monopoly is unfair practice.

[4] For a somewhat extended discussion of this role and of the economics of special prices, see Leverett S. Lyon, *Advertising Allowances*, pp. 73-77.

in stock. Such goods are in reality not deal goods, but samples. Just as sample merchandise to consumers enables them to test without charge the consumption value of the goods in question, so this type of sample to a distributor enables him to test without charge the sale and profit possibilities of a product. Both have the merit of providing the ultimate test—satisfaction in use.

Is one to regard local price cutting in the form of introductory deals as discriminatory? No demonstration is needed to show that during the time introductory deals are being offered in some territories, there is a purchasing advantage for buyers in those territories as compared with other buyers. It may be, however, that in a territory in which a product is already established similar deals were used to introduce it, in which case the advantage of the deal in the new territory is partially or wholly offset.

The introductory deal, particularly if extreme in form, is likely, however, to be discriminatory in that its special provisions are not offered to all the buyers in the territory. Certainly at times deals used to introduce products are offered only to part of the prospective purchasers in a locality with a view to inducing them to experiment with the possibilities of the product there.

II. DEALS ON ESTABLISHED PRODUCTS

As might be expected, deals on established products are more common than introductory deals. Of the dealgivers in the sample, 90 per cent use deals on established products—37 per cent on established products only. It is not to be concluded from this that an established product is more likely to carry a deal than a new product or a product being introduced into a new territory. At any given time the number of established products is greater

than the number of introductory products. Also, a number of the companies which reported that they use deals on established products only have probably not been engaged in introductory work for a considerable period.

The use of deals on established products is always directed to one or more specific purposes—each a part of the strategy of the marketing managers at the time the deal is organized. Grocery manufacturers were asked to report on a list of 16 purposes compiled by representatives of the food industry. The results of the inquiry, in terms of deal-giving manufacturers and deal-bearing products, are given below:[6]

Purpose of Deal	Percentage of Companies	Percentage of Products
To meet competitive conditions	74	68
To stimulate sales attention	63	79
To secure large orders	58	..
To secure a new customer	50	..
To increase business in a short period	47	68
To retain "good" customers	46	..
To increase inventories of customers	37	61
To promote special sales events	37	21
To follow trade practice	32	53
To meet seasonal conditions	32	32
To make large pre-season sales	32	29
To meet depressed business conditions	21	39
To follow company custom	16	16
To unload overstock	5	3
To avoid price-decline guarantees	5	3
To shift costs of carrying stocks	–	–

[6] In addition to the purposes specified in the inquiry, some manufacturers reported objectives which were not based on deals at all; for example, the giving of money or of goods called premiums to retail clerks or to wholesalers' salesmen. These are in reality wage payments, possibly commercial bribery. Similarly, one finds occasionally mentioned as deals the giving of prizes to one's own salesmen.

Although it is unnecessary to discuss all of the purposes mentioned, several need brief comment. Perhaps the most striking discovery is that the purpose of deals reported most often is to meet competitive conditions. The significance of this lies in the fact that in all of these instances the deal is not only a cut from the standard price but is definitely a recognition of the fact that the standard price is higher than competitive conditions make possible. In other words, in all of these instances the deal reflects a consideration of the force of competition, and the price resulting from the deal is an approach toward, even if not an arrival at, a competitive price.

The purpose reported next in frequency by manufacturers, and first in terms of products to which deals are applied, is stimulation of sales attention to the product. Such deals may be regarded as efforts to stimulate distributors by allowing them the extra margin made possible by the deal if the product is sold at the standard price. They are designed to increase consumption of the goods in question, at the standard price.

Where this is the plan a goods deal is more effective than a monetary allowance, as it tends to keep the recipient's mind on the goods purchased and away from thoughts of a change in price. It is said that this type of deal is often effective in causing the distributor to coöperate vigorously in the use of special advertising material and in carrying on special plans which the deal-giver suggests. This raises the question whether a permanently wider margin to the merchant (in effect a continuous deal), accompanied by a well-developed and continuously vigorous sales plan, might not be to the deal-giver's advantage and result in a volume of sales comparable to that secured by the special sales plan in the

form of a deal for a limited period. Manufacturers replied to this question by saying that while both the deal and the wide margin stimulate the interest of the buyer, both are most effective if not continuous. The feeling that something is being secured for nothing can be aroused intermittently, it is believed, but cannot be maintained continuously.

If instead of intending that the distributor retain a high margin, the deal-giver should decide to have the deal benefit passed on, the deal may be regarded as designed to stimulate sales attention through the hope of profit from an increased volume of sales. That the deal-giver's usual intention is to have the deal benefits passed on is indicated by the stated purpose of manufacturers and wholesalers. (See pp. 138-49.) It thus seems evident that in giving deals to stimulate sales attention on the product the deal-giver is again usually making a concession to competitive forces and that the deal constitutes a method of reducing effective prices below standard prices and in the direction of a competitive level. Such purposes may be best served where the deal-giver, though he may be greatly concerned with standard prices to his immediate customers, is not concerned with standard prices beyond that point.

Nearly 60 per cent of the manufacturers giving deals on established products reported that they sometimes give deals to secure large orders. In so far as these are offered to buyers in general the purpose may be to keep the customer loaded, to unload the manufacturer's overstock, or to encourage the practice of placing large unit orders. If the deal is offered in this general way, there seems to be only a nominal distinction between it and a quantity discount. But to the extent that a so-called deal

is given to secure a particular large order, it constitutes a special and discriminatory price regardless of whether the benefit may be expected to accrue to the buyer receiving it or to his customer.

Deals to secure new customers were reported by about half of the manufacturers under consideration. These deals may be efforts to secure new customers by offering the price reduction implicit in a deal to all customers in the territory, or they may be introductory offers within an established territory to those who are not at the time purchasers of the product. In the second case they are susceptible to much of the analysis which may be applied to local price cutting. If the goods are competitive and in general use, the intent is obviously to "win away" a competitor's customer. If the goods are not directly competitive, the purpose is to extend the seller's product at the expense of products in general. Presumably special introductory prices cannot be offered unless they carry their own costs, or unless the losses incurred are recouped from prices charged to others. If they carry their own costs it seems implicit that prices to others are higher than they need be. If they do not, and losses are recouped from other sales, some degree of monopoly must exist. In many instances this is undoubtedly only the monopoly resulting from buyer habit.

Outwardly, deals to retain "good" customers are only price discriminations. Inwardly, they may have some justification either in the cost of handling present business or in the prospect of gaining a desirable new customer. A "good" customer may mean anything from a customer to whom goods can be sold economically to one who will not buy unless a special allowance is made. Whether deals to "good" customers benefit the con-

sumer depends upon whether such customers find it desirable or necessary to pass on what they have gained. Whether they will do so is beyond explanation without knowing the circumstances of each case.

Although only a little more than a third of the manufacturers reported the use of deals to increase the inventories of their customers, this purpose was mentioned more often than any other in conversations with both manufacturers and wholesale buyers. It was usually denominated as "loading distributors." Presumably they are to be loaded with inventories beyond what they would otherwise be expected to carry. It is practically impossible to make a manufacturer who believes in deals for loading distributors retreat from the position that the practice keeps the buyers' shelves so filled with the sellers' goods that a bulwark is formed against the assaults of competitors' salesmen. If there is defense in this method, it must be because keeping the distributor loaded with one's line decreases the number of psychological moments when a competitor can find the buyer approachable.

Though there is some belief that the wholesaler will push harder on a product of which he has a large stock, this seems somewhat doubtful unless the article is seasonal or otherwise perishable. It is what flows through the channels of trade, rather than large sales peaks, that eventually counts both for manufacturer and distributor.

Where deals are successful in loading the distributor it is possible that his costs of distribution are somewhat increased by the carrying of an inventory larger than is justified. But it is also possible that by carrying a somewhat larger single inventory he is protected against the danger of being stocked with a still larger one composed

of several competing lines. If adequate for his customers' needs, a small stock of a single line is more economical than either of the other alternatives. The single line is, of course, a step in the direction of simplification.

Deals used to unload overstock, though usually effective, may react unfavorably. In discussing deals for this purpose, however, manufacturers and wholesalers almost universally testify to their effectiveness. Whether they are of advantage to the seller depends upon a number of circumstances. If a deal-giver is selling to a fairly well-organized list of customers, he is mistaken in believing that loading them with extra merchandise necessarily reacts in his favor. The fact that the merchant has these goods is a definite obstacle in the way of his repeat purchases.

If a policy of price maintenance is in effective operation, deals are particularly likely to clog merchandising channels. If they are passed on as a reduction in selling price by the merchant who receives them, they should result in clearing overstocks from his shelves as well as from the manufacturers' storerooms. If they are not, however, and retail prices remain unchanged, the force which moved the goods from the manufacturer or wholesaler to the retailer is spent. As long as the goods remain in the hands of sellers they are as great an impediment to further sales by the manufacturer, though not as much of a carrying burden to him, as if he were still the owner. There is a well-recognized economic principle that lowered price brings increased sales. The amount which will be purchased at various prices varies much more for some commodities than others. This degree of variation is the so-called "elasticity" of demand. There are some commodities for which there is little or no variation with

changes in price, at least so long as the changes are all at a low level.

In considering the economics of the policy of using deals to unload overstock it is well to ask the question, what is overstock? If it is to be assumed that no stock is desirable, that goods should move as fast as they are manufactured or received, then any stock is overstock. If it is to be assumed that some stock is desirable, overstock means a larger supply than is believed to be necessary for the most satisfactory operations.

A small number of manufacturers use deals for the purpose of selling larger than ordinary orders without guaranteeing against price decline. This purpose corresponds to that of giving deals to avoid protecting floor stocks. (See pages 109-12.) Deals given for either of these purposes may be considered discriminatory. That is, to the extent that the seller has the power to change the price of his product at will, he necessarily discriminates against customers who bought just before he granted a price decline unless he guarantees them refunds proportionate to the decline on such of the goods so purchased as are neither consumed nor re-sold. Without such a guarantee he discriminates against the ones who bought just before a price decline. When prices are entirely competitive, when the seller has no more control over them than has the buyer, no guarantees against price decline are necessary to avoid discrimination. Indeed, to employ them would be to discriminate against customers who hold small stocks and buy on a hand-to-mouth basis.

Putting on deals to shift to the customer the costs of carrying goods involves reasoning similar to that involved in unloading overstocks. Though often mentioned by deal-givers in conversation, this purpose was

not listed by the reporting manufacturers. The manufacturer or wholesaler is likely to justify himself regarding this policy by mistaken economic thinking. Tied up with the idea of the cost of carrying stocks is the notion that stocks must be carried by someone, and that there is something of a struggle between manufacturer and distributor, or between wholesaler and retailer, as to who shall carry them. In recent years, when hand-to-mouth buying has been much discussed, the statement has been made repeatedly that merchants are cutting down their stocks and forcing the manufacturers to carry more and more of the load.[6] On analysis this seems to be unsound. The merchandising world is not one in which there exists a certain quantity of stocks which must be carried by somebody. Excepting for products such as those of agriculture, where natural forces compel seasonal production, there is no given quantity which must be carried and which may be shuttled from one owner to another. If a deal-giver who sells products not requiring seasonal production finds himself carrying more stocks in proportion to present sales than he has previously carried, it may mean that his sales are increasing. This explanation is common during the upward swing of a business cycle. On the other hand, such a condition may indicate a change in general trade relationship requiring the group of sellers to which the deal-giver belongs to carry heavier stocks. Or, it may mean that the administration of stock control has been inefficient or that the prices asked are too high.

There seems to be no real evidence that manufacturers have carried more stocks in proportion to sales

[6] Metropolitan Life Insurance Company, *Modern Trends in Business: Hand-to-Mouth Buying*, p. 179. See also the same, pp. 68-69.

during the last decade than in earlier periods. While they are probably doing so during the depression, an extensive study for the period 1920-29 indicated that manufacturers proved themselves even more capable than wholesalers, and at least as capable as retailers, if not more so, of reducing their stock burden.[7] Though in that period retailers learned a great deal about keeping inventories low and about the desirability of rapid stock turn, manufacturers learned fully as much. Retailers in the meantime were being handicapped in accomplishing quick stock turn by the increasing variety of items, sizes, and styles carried. Manufacturers, though not avoiding this difficulty in finished goods, did escape it in raw materials.

Consideration of the purposes of deals by wholesalers involves the same logic as has been applied to consideration of manufacturer deals. The percentages of the grocery wholesalers of the sample giving deals on established products for particular purposes are as follows:

To increase volume of sales	43
To reduce excessive stocks	29
To sell slow-moving items	14
To assist retailers in offering specials	14
To meet competition	10
To stimulate retailer interest	10
To load dealers	5
To make price reduction	5
To pass on savings	5
To lower profit	5
To establish greater distribution	5
To stimulate sales in a particular territory	5
To complete assortment carried by retailers	5
To use product as a leader	5

[7] See Leverett S. Lyon, *Hand-to-Mouth Buying*, p. 275.

As in the case of manufacturer deals, it will be seen that most of these purposes can be translated into an effort to meet competition by an indirect form of price reduction. This being the case, it is worth while to call attention to the fact that in a great majority of cases wholesalers believe that they accomplish their ends. While one finds them effective "in moving slow items" and one doubts the "lasting gains of sales so stimulated in particular territories," most of the replies of wholesalers as to whether they achieve their purposes were: "Yes," "usually," or "usually if properly handled." To the extent, therefore, that these purposes are instigated by competitive forces, it is a fair conclusion that they usually result in a deviation from standard price definitely in the direction of competitive price.

It is an interesting fact that although both manufacturers and wholesalers in conversation frequently urge the use of deals as a way of moving excess stock, reports of this purpose were uncommon among the manufacturers' returns, though fairly general among the returns of wholesalers. Both manufacturers and wholesalers in advocating deals to move stocks sometimes present the argument that their stock burden (and production in the case of manufacturers) is thus equalized throughout the year. While this argument may present an administrative advantage for the seller, particularly for seasonal products, it must not be overlooked that gains which the seller makes in this way will tend to be lost by making the buyers' inventories higher and more irregular.[8]

A number of purposes other than those specifically

[8] For a general discussion of stock burden of manufacturers and distributors and the stability of inventories of both over a considerable period of years, see the same, Chaps. XII, XIV, and XVIII.

listed by the manufacturers or wholesalers of the sample sometimes move deal-givers in planning their deals. One is to secure all of the orders placed by distributors within a given period. Another is "to secure repeat orders." This is perhaps best accomplished when premiums, through coupons or otherwise, are made available to consumers. The plan is particularly effective when articles which constitute sets of equipment are given separately or when coupons may be collected and utilized almost as money in the purchase of hundreds or even thousands of articles. The "advanced premium," in which the buyer secures his premium and agrees to "trade it out," is the most obvious case, but only somewhat more so than is the premium in which the buyer receives with an original purchase either the fraction of a set or a coupon which entitles him to secure an article when additional coupons are obtained.[9] Premiums are given to merchants for a similar effect, and this effect may result in the continued purchase of goods by a distributor with less critical attention to costs and selling prices than would otherwise be the case. Another purpose of manufacturer deals is to secure direct contact with indirect-buying retailers or consumers. A similar purpose is that of obtaining from customers the names of new prospects.

That free deals should be put on for only one purpose, to advertise some product, is the emphatically stated belief of the president of a wholesale grocery company.[10]

[9] For a description of a number of cases carefully planned to lead the buyer on to further purchases see Frank H. Waggoner, "The Increasing Trend Towards Premiums in the Tea and Coffee Industry," *Spice Mill*, August 1930, Vol. LIII, pp. 1320-22.

[10] A. F. Bauerlein, "Free Deals Should Be Charged to Advertising," *Wholesale Grocer News*, September 1932, Vol. 7, p. 14.

Some believe deals to be a useful advertising device for the purpose of supplying a new note in the advertising of a product. Similarly, some favor deals as a way of encouraging and assisting the deal-giver's salesmen by giving them a new talking point. Others, however, object to deals for this purpose. (See page 155.)

Other purposes of deals which find mention from time to time are to encourage cash business, to secure assortment purchases, to push slow-moving items, to encourage more frequent use of a product, to substitute for cash trade-in allowances, to minimize substitution of competitors' products, to stabilize prices, to encourage proper use of a product, to check attention to radio or other advertising, and to make possible competition of national with private brands.[11]

III. THE INCIDENCE OF DEAL BENEFITS

There is no more important issue concerning deal benefits than their incidence. Where does the benefit of a deal fall? In deals to consumers this is obvious. But in deals to distributors there is more than one possibility. Are the benefits retained by the immediate recipient, or are they passed on to another distributor and by him to the consumer?

[11] For lists and discussions of purposes see Ray Bill, Editorial, *Sales Management*, Oct. 1, 1932, Vol. XXXI, p. 290; Herschel Deutsch, "The Discredited Free Deal," *Advertising and Selling*, Feb. 2, 1933, Vol. XX, pp. 13-15; W. B. Edwards, "That Little Extra Something that Clinches the Order," *Printers' Ink Monthly*, October 1932, Vol. XXV, pp. 35, 70-71; Editor, "How Instalment Buyers May Be Induced to Pay in Full," *Printers' Ink*, Aug. 8, 1929, Vol. CXLVIII, pp. 86-88; Joseph Robert Hilgert, "What Retail Druggists Say about Combination Free Deals," *Printers' Ink*, July 28, 1932, Vol. CLX, pp. 64-67; Frank H. Waggoner, "Premiums as the Solution of Specific Sales Problems," *Novelty News*, July 1932, Vol. 55, pp. 5-12; "New Ideas in Distribution," *Nation's Business*, November 1932, Vol. 20, p. 22 (unsigned); and H. J. Ostlund, "The Distribution of Free Deals by Service Wholesale Druggists," *National Wholesale Druggists' Association Bulletin No. 17*, pp. 5-6.

From an administrative point of view the question is one of intention and of devices to make this intention operative. What does the manufacturer or wholesaler intend? Can he make his intention effective? From an economic point of view the incidence of the deal is the answer to the question as to whether the practice results chiefly in lower prices for consumers or chiefly in increased margins to distributors.

A. Deals Given to Wholesale Buyers

It is safe to conclude that almost universally the intention of manufacturers is that deals on established products given to wholesale buyers shall be passed on, at least in part, to the customers of such buyers. No manufacturer replying to an inquiry as to his intentions on various types of deals on established products reported it to be his purpose that none of the deal should be passed on. It does not follow that the manufacturer always desires that all of the deal shall be passed on or that any of it shall be passed on in the form in which he gives it. For example, if he gives extra merchandise he may intend that the deal be passed on either as a same-goods deal, or as a price reduction on purchases of a certain size, or as a price reduction on purchases of any size.

The intention of manufacturers who give same-goods deals on established products to wholesale buyers is most commonly that the deals shall be passed on in the form of proportionate quantities of extra merchandise. Indeed, this is the desire of at least 90 per cent of them part of the time and 60 per cent all of the time. Next in frequency is the intention that the wholesale buyer shall pass on the deal by reducing his price on purchases of any size. About 40 per cent of the companies report-

ing on this matter indicated this to be their intention at least in certain instances. None of them indicated any other intention, even at times. Variations of intention appear to have no relationship to difference in the types of wholesale buyers to which the deals are offered.

Only a very few companies reported their intentions regarding premium deals given to wholesale buyers, but in such cases as reports were given, either for merchandise of the manufacturer's own make or for other merchandise, the intention was that these deals should be passed on to the retailer as received.

Of the few manufacturers who give monetary deals to wholesale buyers all who reported on intention regarding such deals planned that they should be passed on to the retailer. No special method of doing this was mentioned.

Most manufacturers believe that their intentions as to the passing on of deals on established products to wholesale buyers are respected by at least a substantial part of the deal recipients. Almost without exception they reported a belief that such deals are passed on in some form, even when not in the form intended. It is in the same-goods deal which is to be passed on as proportionate free goods that manufacturers believe their intentions are most often thwarted. While an occasional manufacturer believes that his plans for his wholesale buyers are followed in this respect, a much larger proportion believe otherwise. One manufacturer, however, who intends his same-goods deal to wholesale buyers to be passed on as a price reduction, believes that some buyers pass it on as a same-goods deal to their customers. There is very little difference among the various types of wholesale buyers in the extent to which they are be-

lieved to carry out manufacturers' intentions. However, one manufacturer who believes that most of his wholesale customers pass on same-goods deals as additional free goods, which is his intention, believes that retailer-owned wholesalers seldom do so; and another who believes that almost all wholesalers and all retailer-owned wholesalers and corporate chains carry out his plans, believes that voluntary chains seldom do so without the exertion of special pressure.

In summary, the economic effect accomplished by manufacturer deals on established products to wholesale buyers, whether or not the exact strategy designed by the manufacturer is carried out, is a price reduction to the buyer next in order.

The testimony of wholesalers confirms, indeed extends, the evidence of manufacturers that their deals to wholesalers on established products are passed on to retailers. Every grocery wholesaler in the sample passes on some of such deals in some form, at least in part, to retailers. Some 86 per cent of this group of wholesalers gave no indication that they receive any manufacturer deal of which they do not pass on at least a part.

The method of passing on deal benefits varies slightly, a reduction in unit price being much the most popular one. Some 36 per cent of the grocery wholesalers reported no method except reduction in unit price, while the offering of free goods as the only practice was reported by only 1 per cent and the offering of a reduced price on orders of deal quantities as the only practice by none. Of grocery wholesalers using one, two, or all three of these plans of passing on deal benefits the percentage sometimes using each is:

Unit price reduction	94
Deal-quantity price reduction	42
Free goods	58

All types of gifts used by manufacturers as deals to wholesalers are passed on to retailers by approximately the same proportion of the wholesale recipients. Premium goods manufactured by the deal-giving company are the only form of gift ever reported to be "always retained," and in such deals only 4 per cent of the group handling them so reported. Premium goods not manufactured by the deal-giving company are always passed on by all but 2 per cent of the wholesale recipients. Both same-goods and monetary deals are passed on always by about 90 per cent and sometimes by a still larger proportion of wholesalers handling such deals. The reports of only about 76 per cent of the group of wholesalers reporting separately on deals involving different types of gifts indicated that these companies always pass on all manufacturer deals received.

As would be expected, the method used by wholesalers in passing on deals varies considerably with the type of gift received. Of wholesalers passing on same-goods deals, the percentage using each method, at least at times, is:

Price reduction	94
Free goods	33

A similar tabulation which differentiates unit price reduction from a reduction in price only on orders of deal quantities shows the percentage of wholesalers using each method, at least at times, to be:

Unit price reduction	84
Deal-quantity price reduction	45
Free goods	33

In the case of premium-goods deals, on the other hand, most wholesalers pass on the free goods received. That is, the percentage of wholesalers passing on premium-goods deals who follow each plan is:

Price reduction	41
Free goods	81

When deals of premium goods of own manufacture are differentiated from those of premium goods manufactured by others, it becomes apparent that no wholesaler reported passing on the benefit of a deal of premium goods of other manufacture in any manner except by passing on the goods received. On the other hand, of those passing on the benefit of deals of premium goods of own manufacture the percentage using each method is:

Price reduction	48
Free goods	63

Monetary deals were reported by all wholesalers to be passed on by some form of monetary adjustment, the most common method being a reduction in unit price. The percentage of wholesalers passing on such deals who use each form, at times, is:

Unit price reduction	88
Deal-quantity price reduction or monetary deal	20

The evidence gathered from wholesalers indicates that manufacturer deals to wholesale buyers are usually passed on to the customers of such buyers, even when it is contrary to the strategy and design of the manufacturer. Manufacturer deals to wholesale buyers, therefore, do result in lowered prices, usually in the form of a stated lower price, otherwise in the form of added goods at the same price. This benefit reaches the distributor to whom the wholesale buyer sells, or, if the wholesale

buyer sells to the consumers, as is the case with the corporate and voluntary chains, it reaches the consumer.

The intention of manufacturers was most frequently reported to be the influence which controlled the action of wholesalers when passing on deals to retailers or when deciding whether to pass them on. The following percentages of wholesalers reported the following influences as having some effect upon their decisions:

Intent of manufacturer	81
Competition	52
Welfare of retail customer	23
Judgment of wholesaler	10
Characteristics of the particular items involved	4

Other influences mentioned are lower costs, economic conditions, size of deal, attitude of retailer to minimize purchases, and a "retail buying association which does not use deals." From the evidence available it is difficult to know whether the "welfare of retail customers" as an influence in passing on deals may be regarded as an attitude of consideration for the customers, or whether it is the competitive necessity of placing the retailer on equal terms with the chain which has received the same deal from the manufacturer.

As might be expected, the intent of the manufacturer is a somewhat more significant force influencing wholesalers to pass on deals as they are received than it is in influencing them to pass on deals in other ways. Otherwise, the method of passing on the deal seems to show no particular correlation with the influencing factor.

The executives of several large chain-store companies indicated that they almost always pass on the benefit of deals to the consumer, though they believe they could retain at least a part of it if they should choose to follow

such a policy. One stated that deals are figured into the cost of the product, and that the product is then marketed without any regard for the manner in which the cost price came to be what it is. Another said that the usual practice of his company is to make a special sales feature of an item purchased on a deal basis. If all of the goods purchased are not sold at the sale, the extra margin on the unsold units is usually retained by the company. Competitive conditions, intentions of the deal-giving manufacturers, and the policy of the chain-store companies all play their parts in influencing chains to pass on deals in the manner and to the extent that they do so.

The conclusion is inevitable that deals originated by manufacturers as tactical concessions from standard price result chiefly, because of competition, in bringing the deal benefits to those who buy from the wholesale buying recipients of such deals. This is true whether competitive circumstances or other forces bring about the concession.

B. Deals Given to Retail Buyers

The incidence of deals to retail buyers may be judged by evidence similar to that applied to deals to wholesale buyers: the intention of those who give deals, the reports of these deal-givers as to whether their intentions are carried out, and the reports of dealers as to the extent to which they pass on deals. Extensive testimony on the last point is not available, an affirmative conclusion from that source alone would have to rest on the oral statement of a considerable number of retailers interviewed and the general belief expressed by officers of retailers' associations.

The desire of grocery manufacturers of the sample for the deal to reach the consumer varies from company to company and from product to product.[12] A considerable number of manufacturers, approximately 30 per cent, regard all of their deals as a way of benefiting the distributor without lowering prices to the consumer. A little over half of them use all deals with the intent of lowering prices to consumers. The balance, about 15 per cent, vary their strategy from product to product, on some products giving deals with the intent that their incidence shall be on the consumer, on some giving deals with the intent that their incidence shall be on the distributor. Certain of the companies reporting it as their intention that the benefit of the deal shall be passed on in all cases are those whose reports cover a considerable number of products.

The beliefs of manufacturers regarding the extent to which deal benefits actually reach consumers vary extremely. They believe that distributors who sell to consumers are able to retain the deal margin on about one-third of the merchandise purchased on a deal basis. Most of the manufacturers who intend that the deal benefit shall be retained by some intervening distributor believe that this is done in the handling of a large proportion, if not all, of the merchandise. Similarly, those who desire the deal benefit to reach the consumer believe that it does so in the sale of about 90 per cent of the merchandise. It seems evident that distributors at times receive deals covering products on which the manufacturer attempts a price maintenance policy, or at least a partial maintenance policy, and on which competition in sales

[12] Manufacturers were asked about all sales to consumers without differentiating between sales to consumers made by retail buyers and those made by wholesale buyers.

to consumers is not so severe as to compel the distributor to release the benefit received. It would appear from this that the price competition of the products concerned is generally somewhat less severe among those who sell to consumers, considered as a group, than among those who may be classed as wholesale buyers, considered as a group.

In passing on the deal all of the methods used by wholesale buyers seem to be used by those who sell to consumers. Simply transposing the deal into price terms on any size of purchase is much the most common method. Manufacturers believe that of the goods which they sell on a deal basis, in the re-sale of which the deal benefit reaches the consumer, approximately the following percentages are sold in the indicated ways.

At a reduced price per unit of any size of sale	75
At a reduced price per unit on sales of certain minimum quantities	10
At the regular price with free merchandise included	15

The experiences of different companies vary extremely, perhaps as a result of differences in the types of deals offered.

Indirect-buying deals given by drug manufacturers to retailers are also sometimes intended to be passed on to consumers. No quantitative data are available on this point, but the descriptions of several of these deals included directions for passing them on.[18]

[18] One drug manufacturer who not only desired his deal to retailers to be passed on, but wished to have it passed on according to his specifications, brought suit against a retailer who did not follow his instructions. Two items, packaged together, were intended to be sold to consumers at a special price. The retailer broke the package and disposed of the items separately. A United States Circuit Court of Appeals upheld the position of a lower court which had granted a restraining order against

The observations just made are given definite support by evidence from wholesale grocers. It appears to be the design of most of these merchants that at least some of the deals given to retailers shall be passed on to the consumer. Though about one-tenth of these wholesalers feel that all their retailer customers are able to retain the deal benefit, almost one-fourth feel confident that all their retailer customers actually pass it on. The remaining two-thirds seem to feel the deal margin is retained by some of their customers but passed on by others, not being quite sure how many follow each practice. Some of the comments to the question, "Do you know that the retailer is actually passing on your deals to the consumer?" are: "No, the retailer doesn't like to; he prefers the extra profit;" "Sometimes, as far as our men can dictate;" "We think most of them pass it on;" "A very small percentage pass it along;" "We endeavor to see that it is passed along." There is thus corroboration of the conclusion drawn above that deals to the retailer are retained for his benefit in some considerable part.

Executives of the National Association of Retail Grocers believe that retailers almost invariably pass on deals in one form or another. The method is often a temporary price reduction in the form of a special sale. In such cases, if all of the deal purchases are not sold during the sale, some retailers continue to sell them at sale price until they are all disposed of while others promptly reinstate the regular price and retain the deal margin.

It may be concluded that, most often in line with the

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the retailer, holding that the separation of the items destroyed an advertising value given to them by the packaging. *Weissbard* v. *Coty, Inc.* 66 Fed. 2d. 559. See also *Advertising Age*, Sept. 2, 1933.

intentions of deal-giving manufacturers but at times in spite of them, the deal benefit is usually passed on from wholesale buyers to their customers. However, the deal as a price-lowering device is less effective in sales of retail buyers to their customers. It must not be concluded from this that the aggregate effect of deals in lowering the prices of standard merchandise to consumers is less than in lowering such prices for distributors. The consumer himself is the recipient of many deals originated for him as well as those passed on to him. And, as shown on page 120, the average value of manufacturer deal gifts to consumers is considerably larger than the average value of those given to either wholesale or retail buyers.

CHAPTER IX

THE PSYCHOLOGY OF DEALS

The trade atmosphere in which deals are operated is composed of many attitudes and shades of opinion, of many degrees of advocacy and resentment. The most active elements are the attitudes of those who either give or receive deals or do both and of those who are involved in their use even though not as givers or recipients. In addition there are the points of view of those who neither give nor receive deals and are not otherwise involved in their use. In no group is there unanimity of opinion. Both approval and disapproval are expressed in each. The attitudes which give rise to introductory deals have been discussed in Chapter VIII, pages 122-26. Here we may limit ourselves to a consideration of deals on established products.

I. THE ATTITUDES OF DEAL-GIVERS

Perhaps the most interesting set of attitudes concerning deals clusters around the justifications for their use. Since a deal is an offer of something free with a purchase at a standard price, it is equivalent in monetary terms to a reduction in per unit price. A price reduction comparable to a continuous deal would be a different standard price. A price cut equivalent to a temporary deal would be either a different current price or a temporary price reduction.[1] Why is it that when sellers make a

[1] Obviously the deal and the price cut are not necessarily mutually exclusive alternatives. Both are weapons in the arsenal of sales effort. There is nothing to prevent a seller from approaching his customers with a price cut in one hand and a deal in the other. Reporting manufacturers made little or nothing of this point, but several wholesalers

change in effective price they give deals instead of following the direct method of the open market, that of allowing stated prices to fluctuate freely? The reason, or at least one reason, is a set of beliefs regarding the psychology of their customers. For example, they believe that deals do not undermine the nominal price structure as do price changes, that their customers regard the deal as something which "hath been freely given" and which, therefore, may be as "freely taken away," but regard any effort to return to a standard price, once it has been temporarily abandoned, as an arbitrary and unjustified action. In an examination of replies to an inquiry on this point it was found that, although the reasons given were sometimes in terms of administrative advantages, manufacturers almost universally fear a reduced price because of their expectation of greater resistance to advancing prices than to the cessation of a deal offer. Representative views stated are: "It is a much easier and cleaner cut transaction to allow free goods for a given period and then stop than to temporarily reduce prices. A jobber always fights a price advance and he would consider the reinstatement of the regular price as such." "It is difficult to restore the old price list." "It is easier to take away a deal than to increase a price." "Once the price is cut it is well-nigh impossible to get back to the regular and needed price." "The advantage is that by using deals we do not break down our price level to the wholesaler, retailer, or consumer."

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pointed out that while the price cut is more effective in some instances, the deal has advantages in others. One wholesaler explained: "I like both deals and lower prices. Some classes of trade want deals, others do not." Said another: "We have a number of customers who will not take the same quantity at a reduced price as they will on a deal offer." And still another said: "We use both methods, we think a change in method is effective in selling."

Wholesalers who use deals in sales to their customers employ this logic less frequently than do manufacturers. Yet occasionally they too made such statements as: "It is difficult to raise list price after once reducing it."

Whether it is easier to revert to the nominal price after using a deal than after using a temporary price reduction, it is impossible to say with finality. In view of the opinions just cited one would hesitate to take the negative position. No one can demonstrate that the deal-giver's logic on deals versus price cuts is wrong, since the circumstances of a deal always do keep the nominal list price in effect. The nominal price is the only price quoted under a deal offer.[2] When a temporary price reduction is announced, two prices are quoted at one time, the temporary price and the standard price. On the other hand, where open markets exist prices fluctuate constantly with no recognition of the notion of nominal price. In these markets there is no psychological difficulty involved in price variation; current prices are the only ones quoted. A final judgment on the wisdom of deal-giving as opposed to price reductions must take into account the entrenched attitudes involved. The deal philosophy so far as it is associated with price reduction is related to the idea that standard prices have some sort of permanent rightness. It is related particularly to the notion that reduction below a standard price will usually not be necessary for more than a short period. This notion has a considerable basis in fact in a general price situation of the sort which obtained in the United States for most of the period between 1900 and 1920 and to some extent even up to 1929. It is grossly out of line with the generally declining prices which existed in the

[2] Exception might be taken to this statement in regard to certain forms of monetary deals.

United States from 1869 to 1900 and which have existed since 1929. However, it seems fair to conclude that the deal-giver's attitude on the matter of deals versus price cuts is correct while he is selling goods with an accepted standard price.

Another belief which deal-givers have is that customers enjoy being "fooled." That is, the customer is thought to enjoy being lured by the prospect of getting something for nothing. Even when he knows that in reality he is paying for all he gets and possibly more, he prefers the illusion to the recognition of reality.

The seductive character of the deal, particularly when it is directed toward the consumer, is undoubtedly strongest when the gift is in the form of a premium. The most important psychological and economic fact in premium-giving is that it diverts the buyer's attention from the thing which is being *bought* to the thing which is being *given*. On this diversion of attention rest the probability that the vendee will continue his patronage, the possibility that he will buy more than he would otherwise buy, the possibility of his paying more than he would otherwise pay, and the vendor's hope that one or more of these ends may be brought about. The distributor whose attention is focused on securing a free clock, radio, or piece of wearing apparel becomes a less critical buyer. The housewife who has her attention fixed on the possibility of procuring a free cook book, radio, guitar, watch, or traveling bag, has her buying attitudes aroused and stimulated by motives entirely different from those involved in the straightforward purchase of her more or less prosaic household necessities. The diversion of attention from the articles to be purchased to something else cannot fail to render either the trade or domestic buyer less capable of comparing the cost of the article

under consideration with the cost of competing articles. The situation is perhaps at its peak when the buyer must choose from a variety of premiums or assortments, of which some are new items and others additional units of "sets," part of which he already owns. In such instances the buyer's efforts to adjust his demand schedules to marginal utilities are complicated to say the least.

One wholesaler expressed, almost in so many words, the view that deals do effect a certain deception: "A deal is only originated to deceive the retailer. He thinks he gets something for nothing." A manufacturer said: "To a majority of buyers the psychological effect of something 'free' is apparently more advantageous than a lowering of price to the same basis." Another manufacturer, indicating the relative attractiveness of deals by suggesting that though actually they are price cuts, manufacturers must use them so long as their competitors do so, said: "It might be argued logically that there is no difference between a price cut and a deal, but experience indicates that practically there is a world of difference, at least unless all factors in an industry adopt the tactics of reducing list prices by the amount of money formerly spent in giving deals. Reducing list prices while competitors still employ deals, even though the price reduction was equivalent to the deal in monetary value, has proved disastrous."

In short, the essence of the attitudes of deal-users is: Even though deals may have undesirable characteristics, they work; they work better than price reductions, and so long as this is true they must be used by all competitors if they are used by any. Deal-givers believe that deals are seductive even in selling to mercantile buyers. Therefore, strong arguments against them must be

brought forward before deal-givers will relinquish their use as a form of sales strategy.

Even deal-givers, however, find some objection to deals. One such objection voiced by manufacturers is the tendency of deals to increase seasonal inequalities in sales and hence in production. Without evidence on the point, one might suppose that deals, being in effect lower prices, would be applied in difficult selling periods, thus tending to equalize sales and production. But, as has been shown (see pages 112-13), the deal is very often employed to push sales at what would, even without them, be peak periods, thus increasing the undesirable irregularity. To object to deals because of this effect is a little absurd, however, since the remedy obviously lies in ceasing to employ them in the way which has this effect. Such statements are really complaints that one cannot have the benefits of a given line of action without the accompanying disadvantages, even though the net effect is better than that of any alternative course.

A second objection of manufacturers is that "deals get the salesman in the habit of looking for such aids in making sales." He thereafter becomes relatively ineffective when prices are at list. Here there is stated as an objection what certain other manufacturers cite as an advantage, namely, that the deal makes it possible to secure orders with less resistance. It should also be noted that the obvious alternative, price cuts, probably has the same effects.

A third objection presented by some manufacturers is the inducement to overbuying which the deal engenders. Not a few manufacturers regard their customers almost as they would their own retail outlets and are concerned when these customers purchase more than sound busi-

ness policy dictates. Manufacturers with this view question deals on the ground that they "load the trade artificially and speculatively and subsequently interfere with sound and orderly distribution." Some manufacturers guard against this risk by limitations on the amount of goods that may be purchased under deal arrangements. It will be noticed that here again the situation objected to is exactly that which some manufacturers urge as one of the purposes of deals. (See page 127.)

A fourth objection of manufacturers is that the deal, like the reduced price, "tends to become normal and the list price becomes a farce." To the extent that this is true there is no argument for the use of deals rather than price reductions, except, perhaps, in the case of continuous premium deals in which the gift is changed from time to time, thus giving current points of interest to a product the purchase of which might otherwise be a dull matter.

A general objection of manufacturers to their own deals is the degree of opposition which they arouse in their customers. Manufacturers are pretty well aware of wholesalers' disapproval of the deal method of merchandising. Such feelings on the part of distributors are not conducive to the smoothest flow of trade.

So far as wholesalers themselves object to the deals which they themselves use, their objections are in line with those which manufacturers cite. Many reported that their deals tend to overload the retailer, that they tend to confuse him as to his costs, that small retailers are sometimes unable to participate in them, and that the complaints of retailers in regard to them are sufficiently frequent to create an unsatisfactory atmosphere in which to carry on business.

II. THE ATTITUDES OF DEAL RECIPIENTS

The attitudes of those who receive deals may or may not be what deal-users believe them to be, and the interests of those who receive deals may or may not be in harmony with the interests of the deal-user. Distributors may view manufacturer deals as advantageous to their marketing operations or to them personally. Or they may resent them as weapons used to work the will of manufacturers in the control of the distribution process. Consumer recipients of deals, like distributor recipients, may be of any one of several minds. One may regard deal gifts as desirable and generously given, another as annoying but inescapable accessories of buying.

Wholesalers so generally feel opposed to manufacturer deals that they are more disinclined than manufacturers to say anything favorable of them, even though they may use them.[3] Among reporting chains there was no voice favoring the general use of deals. Retailers often object to them.[4]

Speaking as deal recipients, 87 per cent of the reporting grocery wholesalers objected to deals because they engender confusion regarding costs. This confusion is said to arise chiefly from the fact that such buyers have on hand more or less constantly some goods purchased at list price as well as those purchased on a deal basis.

[3] In a vote on the use of free deals taken by the American Wholesale Grocers' Association on April 11, 1931, only about 7 per cent of the members approved the practice. E. B. Weiss, "Can the Free Deal be Simplified and Standardized?" *Printers' Ink*, Sept. 17, 1931, Vol. CLVI, pp. 61-68.

[4] Certain forms of deals were said to be opposed by a large majority of both chain and independent retail drug dealers interviewed by a trade writer. This opposition was said to be particularly strong among the independent retailers. Joseph Robert Hilgert, "What Retail Druggists Say about Combination Free Deals," *Printers' Ink*, July 28, 1932, Vol. CLX, pp. 64-67.

In short, the real objection, in this case, is not to deals particularly but to any deviation from the standard price structure of the deal-bearing products, since precisely the same confusion would arise if as frequent price changes were accomplished by temporary price cuts or fluctuating prices on these products. Wholesale buyers purchase bulk sugar, coffee, and certain other products in markets where prices fluctuate daily. Under these circumstances they do not think of talking about confusion of costs.

Aside from their general attitude towards all deals, wholesalers have very strong feelings on specific types of manufacturer deals and on specific practices. First may be considered the basis for the allowance in buying deals. In so far as buying deals require that a minimum quantity be purchased, they are contrary to the desires of wholesalers. With a single exception, wholesalers reported themselves in favor of an allowance per unit and opposed to a deal offered only with orders of a specified size. It is obvious that the allowance per unit gives the economic advantages of the deal equally to all purchasers. Minimum purchase requirements eliminate from participation those whose unit of purchase is necessarily smaller than the required minimum and make participation more difficult for any whose unit of purchase is desirably smaller than the required minimum. The allowance per unit has the added advantage, from the standpoint of buyers, of making computation of costs comparatively easy. To the seller, however, the allowance per unit appears more clearly as a mere price reduction and lacks the impetus to heavy stocking which is inherent in deals based on quantity purchases.[8]

[8] It is said that sometimes shrewd retailers are able to avoid some of the difficulties of a minimum purchase requirement in manufacturer indirect-buying deals, especially when the deal gift is obtained directly

The counting of floor stocks by the deal-giver is a matter on which there is a variety of feeling among wholesalers. This practice may be followed as a means of checking either the amount of stock to be protected, in the case of a buying deal, or the amount of revenue goods to which the deal gift properly applies, in the case of a selling deal. In regard to the count–and–re-count method of administering selling deals there is the frequent complaint that it encourages dishonesty and deception. (See footnote 5, page 17.) A number of wholesalers, however, indicated a strong appreciation of the fact that it saves them the trouble of keeping an accurate record of sales made during the deal period; an even larger number expressed approval of the fact that "it assures the jobber that he receives free goods on all shipments," or that there is "no chance for order to go out without charge-back being made," or that it is the "only positive way of knowing that you get back what you give away."

In discussing these advantages and disadvantages of the count–and–re-count method of checking sales a number of points touching on the merits of selling deals in general were made. These include the statements: That selling deals spur distributors' salesmen; that they give the distributor the benefit of the deal without increasing his stocks as much as is required in buying deals; that they are comparatively fair to all in that they reward the distributor for his sales effort rather than for his willingness to buy speculatively according to his financial ability or his willingness to overstock; that they en-

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from the manufacturer, by ordering the minimum quantity of revenue goods from the wholesaler so as to get the deal gift, returning part or all of the revenue goods for credit, and keeping the gift. "Some Disadvantages of Free Deals Cited," *Domestic Commerce*, Oct. 10, 1932, Vol. X, p. 110. (Unsigned.)

courage the passing on of price reductions more than do others.

Wholesalers, speaking both for themselves and for retailers as deal recipients, see little merit and much demerit in the method which requires the submission of copies of retailers' invoices either by the wholesaler or the retailer, or the report by the wholesaler of sales to retailers. Of the total number replying, one expressed the view that this method eliminated dishonesty. Others see "no advantages." Objections included the manufacturer's delay in payment, the fear that he will obtain a "line on wholesalers' customers," and the belief that compliance is possible "only with the better type of educated retailer and impossible with those having feeble accounting methods." More widespread is the belief that the manufacturer profits in such deals through the failure of the retailer, when he is the responsible agent, to send in the invoices. About 20 per cent of the reporting wholesalers expressed this objection. Still larger is the proportion who object to the method because of the chance of error or fraud, some 40 per cent voicing this fear. Most general is the objection to the extra trouble and expense involved.

A comparison of wholesalers' attitudes on the protection of their floor stocks either by permitting purchase at the expiration of the deal or by protection of stocks at the beginning of the deal shows a unanimous preference for the latter practice.

In replying to a question as to whether manufacturer deals invite deception concerning quantity of stock on hand, 92 per cent of the reporting wholesalers replied in the affirmative. It is said not only that wholesalers on their own initiative sometimes pad stocks for reporting

purposes, but that manufacturers' salesmen sometimes tell them to do so. One manufacturer suggests that a monthly report to the manufacturer from the jobber might help to prevent this deception.

The objection to local deals mentioned most often by those who would prefer national deals involves overlapping of deal with non-deal territories. Some complained that either through inadequate instructions or through a disregard for instructions received, many of the wholesalers receiving local deals sell in territories to which the deals do not apply. Others find confusion in the fact that since their own customers are located in both deal and non-deal territory, their salesmen must keep constantly familiar with both sets of terms and are burdened with the care of being sure to quote the appropriate set to each customer. Another common objection is that even where actual sales on a deal basis do not extend beyond the prescribed deal territories, knowledge of them does, thus encouraging retail customers in non-deal territories to lose confidence in their wholesale suppliers. Still another belief about local deals is that they are unfairly discriminatory against retailers just outside of the deal border line. In spite of the varied objections of many, about one-fourth of the wholesalers are as well pleased with local deals as with any form. Some are so located that there really is no difference to them since local deals in other territories do not affect their competitive position and local deals given in their territory amply cover all of the area in which they operate.

What has been said above does not give the full flavor of the wholesaler's attitude toward deals. Speaking generally, no doubt motivated by their interests both as recipients and as givers of deals, such general observations

as the following thoroughly garnished the reports of wholesalers: Deals of any kind are "arranged by force selling and are unsound." "We find no advantage in deals for either jobber or retailer." "There has been a great deal of dishonesty as a result of deals." "Certain types of deals open a tremendous play for fraud, the prolongation of a demoralized market." "We want lowest net price, not deals." "We favor no deals." "Deals and premiums are a delusion." "We object to deals of any and all kinds." "We are opposed to all manufacturers' deals." "We do not approve of deals." "We see no advantage to any deal." "Nearly every deal is a positive nuisance." "We prefer price instead of deals." "We discourage deals of all kinds." "Deals have become so general that they have lost all value." "Abolish all deals; we believe they are an illegitimate method of competition." "Free deals of any kind are an abomination."

Worth remarking also is the number of wholesalers who, when expressing a preference for one method or another, introduce their preference by some such phrase as, "If we must have deals then we prefer this method," "When we get to favoring deals at all, we prefer this procedure." In all of the returns from grocery wholesalers there was, with the exception of an occasional expression of approval of premiums, not a single enthusiastic, or even laudatory, expression in favor of manufacturer deals. This lack of enthusiasm for deals, it seems fair to say, as was said on page 158, is in part at least a lack of enthusiasm for any variation of standard price. A number of wholesalers coupled their objections to deals with complaints that they "upset the market." But this condition would be just as probable if price cuts were used instead of deals. Even when wholesalers were asked for remedies, their suggestions were invariably in

the nature of curing the sick dog by cutting off his tail close behind his ears.

III. OTHER POINTS OF VIEW

Both manufacturers and distributors have opinions even of deals in which they are neither givers nor recipients. Wholesalers, for example, condemn manufacturer indirect-buying deals to retailers or consumers in which the wholesaler handles the deal goods as well as the revenue goods as unanimously as they condemn those given to or by themselves. The most sweeping objection to these plans lies in the fact that they require the wholesaler to store, sell, and deliver more merchandise than he is paid for. For example, if the deal is an offer of one case free with the purchase of 12 cases, he handles 13 packages and receives payment for only 12, thus distributing 7.7 per cent of the goods without remuneration. It is obvious that these processes increase the wholesaler's expense per unit of product for which he receives payment and decreases his gross margin per unit of product which reaches the consumer. Thus he may be less well off per unit of product handled than he would have been had he handled 13 packages in the regular manner. But this is not saying that he is less well off than he would be if the manufacturer had used a price reduction instead of a deal. (For a discussion of this point see pages 169-70.)

The attitudes of those who, though associated with an industry in which deals are common do not give deals or receive them, may be disposed of with the general statement that they object to the whole practice. Usually, though not always, their objections are not to particular deals, or methods, or situations, but to deals in general. A decision not to give deals is in some cases based on the

belief that deals are inappropriate to the product or marketing procedure involved. In other cases it may be based on a sympathy with the objections of buyers or a conclusion that the purposes of the potential deal-giver are best served by a policy which does not find disapproval among those to whom he sells.

One complaint from those who have no direct connection with deals is expressed by those who regularly sell the products which others give away or otherwise use in deals on other products. Distributors of such subsidiary products complain that this practice is an unfair invasion of their market. Manufacturers of such products believe that the price structure of their goods is impaired and their value belittled in the minds of buyers. However, those using such deal plans contend that they render a promotion service to the sellers of the subsidiary product.[6]

In summary it may be said that in spite of the pervasiveness of deals in certain trade groups and the strong convictions regarding their utility on the part of some, these same groups ferment with objections to deals. Some manufacturers, as we have seen, decline to use them and others who use them commonly and, they believe, effectively, see certain objections to their use.

In general it may be said that manufacturers make by far the fewest objections to deals. Distributors by a heavy majority are against them. And yet, the proportion of wholesalers who favor them is greater than the proportion of manufacturers who oppose them. It should be

[6] See, for example, Frank H. Waggoner, "Killing the Jinx that Premium Use 'Hurts' Retail Sales of Same Articles," *Novelty News*, May 1933, Vol. LVI, pp. 26, 54, and Harry Scherman, *Minority Report of the Bookseller's Code Committee*, pp. 8-10.

pointed out, however, that the difference of viewpoint is largely a difference of position. The objections which manufacturers see to deals are usually, though not always, the objections which their customers make. The objections which distributors make are usually not to the deals which they use but to the deals which manufacturers use in selling to them or in selling to their customers, particularly those which involve the distributors in the operation.

CHAPTER X

COST FACTORS

There is much discussion of the costs involved in the use of deals. Some contend that as a method of merchandising the practice is unduly expensive, others that it is exceptionally economical. It seems clear that the truth of either of these contentions can be ascertained only by a comparison of deals with other devices for stimulating sales which may be available to a seller at a particular time.

In making such a comparison there are at least two factors that must be given consideration. One is the outlay involved in the use of each type of marketing device. The other is the effect of each of these devices on the volume of sales available at any given price. The volume of sales will affect production or marketing costs, or both, per unit, in so far as these costs are invariable in total. In addition it should be remembered that the use of each type of sales promotion may have a different effect on the variable outlay for other sales effort. For example, an increase in the use of premiums may make possible a greater decrease in the use of general advertising than would an increase in the use of some other form of deal. With such criteria in mind, it is possible to determine the effect of the use of each sales stimulant on *total net profits*—which in the last analysis is the basic consideration in passing judgment on their expensiveness. It follows that those who are responsible for considering the advisability of using some form of deal, or some other marketing device, will be aided by having information

relative to all the variables affecting total net profit. These include all items of outlay, and also the volume of sales available at given prices.

It is obvious that the problem of expensiveness of any given form of deal cannot be attacked in any general way. The costliness of a deal may vary for each seller in a market and for each market and product of a seller. It does appear worth while, however, to consider certain factors confronting sellers in their attempt to ascertain the relative efficiency of the alternatives available to them. It is possible to suggest certain factors that will affect costs of selling and total available sales at any given price, even though it is impossible to resolve these into an appraisal of the efficiency of a marketing device.

There is no doubt that the selling deal and the indirect-buying deal, whether goods, services, or monetary allowances are given, involve more administrative expense than do direct-buying deals. This expense arises from the necessity of reporting and recording the sales or the purchases, as the case may be, made by the recipient of the deal. But such deals, it should be remembered, are designed to accomplish certain results for the deal-giver which he could not be sure of accomplishing otherwise. The selling deal, for example, unlike the direct-buying deal, assures him before he gives the deal benefit that his goods have reached a buyer one stage nearer the consumer than the recipient of the deal. In some cases this would be the consumer himself. In an indirect-buying deal the benefit gives stimulus to a buyer at least one stage, often more than one stage, beyond the immediate customer of the deal-giver. Such results may make the added costs of deals of these types of little consequence in terms of their benefits. Similarly, in the use of certain coupon-premium deals to retailers or con-

sumers and other deals which require special reporting and handling of records or merchandise, the deal-giver may be seeking an extra gain. Perhaps he wishes to establish contact with a buyer beyond the immediate buyer, perhaps to secure information concerning such buyers which he cannot obtain by any less expensive means.

The comparison of selling and indirect-buying deals with price reductions is similar to their comparison with direct-buying deals. A price reduction granted only after the re-sale of the goods would involve the same expenses of recording and reporting sales as does a selling deal. A price reduction cannot be given by a seller to any but his direct-buying customers.[1] Thus, the special expense involved in giving indirect-buying deals is incurred with the object of accomplishing a purpose which cannot be directly accomplished by a price reduction.

Premium deals are the form of deal most commonly compared with other forms of promotion. They are believed by those using them to be at times more economical than alternative forms of advertising. Such premium-givers would, in case of competition, be expected to furnish their goods to consumers at a lower price than otherwise.

In computing costs of same-goods or premium-goods deals, sellers often overlook the expense involved in distributing. Some seem to believe that the cost of supplying deal goods is no more than the purchase price of the goods. However, there is no more reason to suppose that goods under the label "premium," "free," or "to be given away" can be passed through the channels of trade without storage, transportation, handling, recording, and administrative costs, than there is to suppose

[1] It could, of course, be given to indirect customers under a re-sale price agreement.

that regular merchandise can pass through the channels of trade without these costs. No manufacturer will, or can in fact, dispense free goods without some costs in addition to the purchase or manufacturing cost of the goods.

A still further cost issue has to do with the protection of margins of distributors, particularly wholesalers, when indirect-buying deals are given to the distributors' customers. As has been noted above, distributors often complain that in indirect-buying deals they are required to handle goods on which they do not receive their percentage margin. They conclude that unless the manufacturer compensates them for this "loss" they are being imposed upon. The deal-giver often appeases them by giving some "compensating" allowance. If this situation constitutes imposition, it is similar to the imposition which a wholesaler often imposes upon himself when he receives a temporary price reduction. Wholesalers do not object to price reductions on the goods which they purchase. Where such reductions are regarded as temporary, it is common for them to re-sell the goods at the same percentage mark-up as when they are bought at the standard price. That is, the wholesalers, by this method, pass on the reduction to the retailer.

A comparison of the wholesaler's position when the goods are sold on the deal basis with that when they are sold at a price reduction equivalent to the deal, will show that a belief in unfair treatment, based on an analysis of percentage margins such as is indicated above, is ill founded. Irrespective of which of the two marketing devices is used, the *total purchase cost* paid by the wholesaler is the same. If it is assumed that the price reduction and the deal stimulate sales to the same extent, his *gross margin in dollars*, and his *total sales receipts* would also be precisely identical in the two instances. It would ob-

viously follow, under these conditions, that even the *percentage margins*, in terms of total costs and receipts, must be the same, whichever of the two alternative methods of sales promotion is employed.

If, in addition, the costs of handling, and other selling and operating costs, were equal for the price reduction and the deal, the wholesaler would be left with the same volume of *total net profits* in each instance. Under such circumstances, it would seem difficult to construct a case for a claim of imposition in the use of the indirect-buying deal, and whatever the arguments are for giving an allowance to compensate for this "imposition" in the case of the deal, they are equally applicable to giving it in the case of the price reduction. It should be remembered, however, that this conclusion rests on the assumption that in the case of a temporary price reduction distributors do not change their percentage mark-up.

CHAPTER XI

SUMMARY AND SUGGESTIONS FOR CODE-MAKERS

The method followed in this volume—the discussion of administrative problems more or less continuously in connection with economic issues—may have resulted at times in obscuring the latter. It seems appropriate, therefore, to present a somewhat definite summary of major conclusions. Such conclusions may then be made the basis for suggestions to government officials and trade representatives now engaged in formulating codes of unfair competition.

I. SUMMARY OF CONCLUSIONS

A free deal, defined formally as an offer of something for nothing contingent upon a purchase, may be described in more simple terms as a way of giving a buyer something more than he is supposed nominally to expect. That is, it constitutes a concession from what is regarded as a standard price.

Administrative ingenuity has devised a multitude of forms for deals and not infrequently applies a number of them simultaneously to a single product.

Free deals are employed in many so-called industries by manufacturers, publishers, wholesalers, retailers, service agencies, and others. There is proof that they have been applied at least at times, and quite recently, to several hundred types of goods. However, free deals are essentially a phenomenon of a method of pricing in the economic area where semi-monopoly is achieved by

branding and advertising, and by the use of an advertised and more or less regular standard price. They are one of the most widely utilized methods of deviating from standard price in those so-called industries where packaged branded merchandise abounds. Their forms and administrative techniques are numerous and varied. There may be a new area for their use if government price fixing is extended.

To the degree that free deals are a method of deviation from standard price, they become socially significant as a means by which the rigidity of standard-price structure in branded merchandise is modified. So long as the flexibility of the price structure attainable by other means is not as great as that obtained by the use of deals, the latter practice will have an economic and social value.

The significance of free deals as price reductions varies widely from time to time and from deal to deal, particularly in terms of the type of deal consideration given. In general, monetary, same-goods, or same-service deals are the ones in which the reduction is the most direct and the most easily calculable. Premium goods and premium service are more indirect, less subject to monetary calculation, more designed to lure the buyer by other than pecuniary motives, and accordingly to confuse him in allotting rational values to his purchases.

The amount of deviation from standard price registered by deals varies from deal to deal and to some extent from industry to industry. The evidence examined shows reductions from standard price ranging from approximately 3 per cent to approximately 75 per cent. Though the data bearing on the point are meager, there is evidence that deals are used with some degree of flexibility, making possible variations from the standard

price of a product as market conditions or administrative considerations appear to vary.

A large proportion of total deal benefits, that is, the reduction from standard price made by free deals, reaches the ultimate consumer. In addition to the benefits of the deals which manufacturers, wholesalers, and retailers independently design for consumers, the evidence shows that the benefits of deals given to wholesalers are, in large part, passed on, and of deals given to retailers are often, though somewhat less fully, passed on.

Introductory deals, although always disruptive of the vested interests of competitors, nevertheless make possible, in some instances at least, an offer to consumers of an alternative opportunity of purchase which otherwise would not be available. They offer merchants the opportunity to experiment with the sale of goods not previously handled by them and no doubt at times afford sellers the most economical method of entering such markets.

In view of the above, if the alternative to the use of deals is the maintenance of standard price and the degree of monopoly which such rigidity of price implies, there is no doubt that lower prices for the consumer and a more flexible adaptation of price to the forces of demand and supply are secured by the institution of free deals.

The frequent allegation that there is discrimination in deals because more manufacturers give deals to certain types of wholesale buyers than to other types, or grant to certain of such buyers more frequent or more advantageous deals than to others, is not borne out by the reports of manufacturers of their use of deals on established products. Such discrimination as exists in such deals from these causes appears to favor slightly

the wholesaler-retailer type of distribution rather than the chain type. Certain discriminations among individual buyers do arise, however, in the administration of various aspects of deals, such as time, area, and quantity.

Trade attitudes on deals are varied and offer conflicting antagonisms. Objections are more general among distributors than among manufacturers. Pro-deal attitudes center chiefly in the assumed merits of deals as a device for temporary price reduction and in the belief that the buyer is to a degree gulled by the notion of something for nothing. Objections often rally around the belief of distributors that deals engender confusion in regarding costs. There is a tendency to overlook the fact that frequent price fluctuations in monetary terms would be little, if any, less confusing.

Undoubtedly deals make possible a coupling of the semi-monopoly of standard price with a method more controllable and less devastating to the principles of standard price than are fully competitive prices, or even prices not more variable than deals make them, but stated in direct monetary terms. This fact undoubtedly gives an administrative advantage to many of those using deals.

II. SUGGESTIONS FOR CODE-MAKING UNDER THE NRA

Suggestions for trade regulations of free deals in the interests of so-called fair competition have long found expression in the polemics of trade conventions and the rhetoric of trade journals. The regulation of deals secured through the redemption of trading stamps has been a matter of legislation and court controversy.[1]

[1] See Chap. II. Also, The Los Angeles City Council has passed an ordinance prohibiting the offering of goods at a reduced price on condition that other goods are purchased. See J. B. Corbaley, *Facts in Food Distribution*, Oct. 8, 1932.

Various controversial issues involved in deal use have been given attention in the trade practice conference agreements drawn up by trade associations under the auspices of the Federal Trade Commission. Of about 96 industries which entered into such agreements during the period October 1926-June 1933, 70 made rules relevant to free deals. Of these, 64 limited their restrictions to Group I rules;[2] 6 formulated Group II rules.[3]

The effort to set up trade regulations of deals has gone on vigorously under the codification of trade practices initiated by the National Recovery Administration. Of 582 proposed codes examined, 313, that is, 54 per cent, use language which could be interpreted as a regulation of at least some forms of free deals. Of 107 approved codes examined, the same is true of 60, or 56 per cent.

A study of proposed and accepted codes in the light of the information and analysis presented in this volume makes pertinent a number of suggestions for the guidance of government officials and trade representatives who are responsible for code-making. It appears doubtful whether those agreeing to code regulations touching

[2] The reader should perhaps be reminded that Group I rules under trade practice conference agreements cover those practices which already are clearly under legal condemnation.

For a brief discussion of the development of the trade practice conference idea, the two types of rules, and the limitations of industry's self-regulation, see Leverett S. Lyon, *Advertising Allowances*, Chap. VI. For an unusually able discussion of the general problem of business regulation, particularly in relation to the anti-trust laws, see Gilbert H. Montague, "Proposals for the Revision of the Anti-Trust Laws," as given in Milton Handler, *The Federal Anti-Trust Laws*, 1932, pp. 23-73.

[3] For example, a grocery industry Group II rule condemns "'Free deals' that affect injuriously wholesalers, retailers, or consumers . . ."; a Group II rule of the household furniture and furnishings trade condemns "the practice of giving away products of the industry, or other things of value, or granting special inducements . . . and then overcharging customers on other articles to recoup losses. . . ." *Trade Practice Conferences*, Federal Trade Commission, June 30, 1933, pp. 120, 124-25.

deals have been in all cases fully aware of the implications of their agreements. It will be useful, therefore, with a view to the formulation of codes not yet approved and to the possible modification of existing codes at the proper time,[4] to make a series of suggestions designed to be helpful to those at work upon this great task. These suggestions may be stated as follows:

1. Those responsible for code-making may condemn, with a certainty that they are on safe ground, all free deals which are given to some but not to others under like conditions.[5] But, what appear to be special concessions can often be defended upon the grounds that conditions are in actuality different. Therefore, such provisions will require especially careful administration to make sure that what appear to be, in reality are, special concessions. The deception of appearances is nowhere more common than in trade relationships.

2. Less obvious is the justice of condemning secrecy. As has been pointed out at more length elsewhere, secrecy may be extremely valuable to a manager in preserving a monopoly on good sales strategy even when there is no unfairness involved.[6] Secrecy may merely preserve ingenious methods or conceal a price cut to one group of a company's customers, which, though it might be justified on economic grounds, might bring protest from another group of his customers who were anxious

[4] Early in December a Washington, D.C. news service reported that the New York Regional Code Authority had ruled against the giving of free merchandise with "every purchase of another article."

[5] About 16 per cent of both approved and proposed codes which include deal provisions do condemn, if discriminatory, certain forms of deals the use of which otherwise is considered to be satisfactory.

[6] Lyon, *Advertising Allowances*, pp. 78-80. Secret deals of types considered good practice if not secret are prohibited in approximately 40 per cent of the proposed and approved codes which include deal provisions.

to secure a similar reduction. Secrecy may aid the consumer by causing competition to lower prices more promptly than it would if the secret practice did not exist. The great arguments against secrecy are (1) that it may cloak discrimination and (2) that it tends to arouse suspicion and mistrust, in themselves evils, and to breed in trade generally a feeling of ill-will, even where no unfair practice actually exists. In view of all the factors involved, secrecy of special free-deal arrangements is perhaps wisely condemned. The policing of such a rule, however, even by government effort, is no easy task. Secrets are not open except to those who are parties to the arrangement; and although many subsequently become known, knowledge of them is often largely diluted with conjecture and suspicion.

3. In writing code regulations relative to deals, extreme care should be taken to make sure that the code prohibits those forms of deals which it is the desire of the trade to condemn and allows the use of those which it does not desire to condemn. Two examples of types of ambiguity are given.

a.) Proposed codes are frequently ambiguous as to the recipient of the deal. Such codes, for example, often prohibit the giving of deals to any "purchaser or prospective purchaser."[1] In such a case there is uncertainty regarding the desire of the writers of the code. It is clear that such a prohibition forbids the granting of gratuities to those who purchase directly from parties to the code agreement. It is not clear whether or not it forbids the granting of gratuities to indirect buyers, that is, to those

[1] See, for example, the code for the floor and wall clay tile manufacturing industry, approved Nov. 4, 1933, Art. VIII (5). The same or a similar phrase is used in about 17 per cent of the proposed and approved codes of producing industries which include deal provisions.

who purchase from the customers of parties to the code agreement. For example, in the case of a code for manufacturers, does "prospective" in this phrase mean potential direct purchasers from the manufacturer, or does it mean those who may be expected to purchase the manufacturer's goods from a distributor? Such purchasers may be retailers who buy from wholesalers to whom the manufacturer has sold, or they may be consumers. The point is important in view of the large number of manufacturers who give indirect-buying deals. (See page 57.) Those responsible for code-making would do well to examine the codes submitted by the wholesale confectionery[8] and small arms and ammunition[9] industries as examples of more careful specification of types of purchasers. The master code of the food and grocery industry[10] is another example of careful specification of deal recipients.

b.) Ambiguity arises in both the proposed and the approved codes which forbid certain practices in words which have many meanings.[11] In a cleaning and dyeing code submitted, for example,[12] the use of "coupon books or of discount coupons," also of "premiums or of lotteries," is forbidden. Both premiums and coupon books have a variety of meanings which leave such prohibitions altogether too unclear for adequate enforcement. For example, does an industry which prohibits premiums wish to exclude even the use of advertising novelties of little

[8] Aug. 28, 1933, Art. VI (8).
[9] Sept. 13, 1933, Art. IX (2).
[10] Proposed at the public hearings before the Agricultural Adjustment Administration on Oct. 9, 1933, Art. V (5).
[11] For example, 9 per cent of the approved and proposed codes which include deal provisions use the word "premium," and 2 per cent of such codes use the term "free deal," without definition.
[12] Sept. 15, 1933, Art. IV (9b and c).

value? Certain codes have made provisions which take care of this issue.[13]

A similar ambiguity arises in those cases where it is declared: "No special terms, prices, consignments, allowances, rebates direct or indirect, or any concessions of any kind or description, not shown on the manufacturer's published schedule of prices, shall be offered or given to any customer. . . ."[14] Are such prohibitions intended to be of all deals or of no deals, providing only that if deals are given they must be announced on the published schedule of prices? Clearly such a statement intends to proscribe all deals which are not announced. But could offers of deals which might be variations from the so-called standard prices of the manufacturer be construed as part of the published schedule of prices if they were announced with such prices? Or would the use of any deals under any circumstances be a violation of this regulation?

4. Those drawing up code regulations should carefully distinguish between free deals and commercial bribery. In both proposed and accepted codes these two are often dealt with as if identical, thus leading to confusion in the rule as a prohibition of either practice.[15] In the approved iron and steel code,[16] for example, there is forbidden the "Making or promising to any purchaser or prospective purchaser of any product, or to any officer,

[13] See Art. XX of the code for the paint, varnish, and lacquer manufacturing industry approved Oct. 31, 1933, and Art. XIV of the code for the rosin, pitch, and compounds industry submitted on Aug. 29, 1933, for examples of careful definition of terms used.

[14] Code for the sheet rubber and related sundries manufacturing industry, submitted Aug. 31, 1933, Sec. VI (2).

[15] About 28 per cent of proposed and approved codes which include deal provisions are worded so as to cause some confusion.

[16] Aug. 19, 1933, Schedule H (A).

employee, agent or representative of any such purchaser or prospective purchaser, any bribe, gratuity, gift or other payment or remuneration, directly or indirectly." Similarly, in the approved code of the motion picture laboratory industry,[27] "commercial bribery, giving gratuities, favors, or services in any form . . ." is forbidden. Gratuities or gifts in the form of deals are not bribery, and the combining of the two in the same prohibition can only lead to lack of clarity in interpretation and difficulties in enforcement.

If these prohibitions are to be interpreted strictly, every free deal or premium offered in the regular course of business to merchants or to customers would fall in the same class of reprehensible action as do secret payments to dealers' clerks, gifts to purchasing agents or their families, or similar nefarious practices. If manufacturers commit themselves to these prohibitions, they should do so fully conscious of the fact that they are, at least by liberal interpretation, denying themselves the use of practices which are widespread and which in certain industries, as these pages have indicated, are utilized almost universally.

5. If the code contains any specifications as to prices at which goods may be sold, or as to limits below which they may not be sold—as, for example, in the approved retail trade code[28]—care should be taken to indicate whether or not the giving of free deals is to be regarded as a violation of the restrictions stated. Since free deals, in the form of either goods or services, are by many not regarded as deviations from standard price, it seems certain that unless a regulation on free deals is specifically

[27] Sept. 7, 1933, Art. V (4 c).
[28] Oct. 21, 1933, Art. VIII.

made in codes with minimum price limitations, confusion will arise.

6. Codes adopted by groups of distributors and prohibiting the giving of deals should clearly specify whether this prohibition is applicable to the passing on of deals which these distributors have received from manufacturers. In a proposed code for the retail drug industry,[19] for example, "any trading allowance given to any purchaser in connection with the sale of any product or article or delivering to such purchaser in connection with such sale any other merchandise of any description, except upon payment in accordance with the provisions of the code," is declared to be an unfair trade practice. While this provision would apparently prohibit the retail drug trade from giving deals on its own initiative, it seems unclear whether it would prohibit it from passing on deals which it may have received from manufacturers or wholesalers or from handling manufacturer or wholesaler deals offered by them to consumers.

7. Trade groups contemplating prohibitions against the acceptance of deals should consider the competitive position in which this prohibition may place them.[20] Industries with these prohibitions may find themselves in a position to receive less advantageous terms than those accorded to their competitors who do not have similar provisions in their codes. The giving of deals may make it possible, in other words, for a vendor to give certain buyers what is in effect a lower price than the group subscribing to the code can properly accept.

8. Code-makers should consider with special care

[19] Aug. 26, 1933, Art. VII (2).

[20] Such prohibitions have appeared in about 5 per cent of the approved and proposed codes which include deal provisions.

whether it is their desire to exclude open and non-discriminatory free deals, especially those in the form of monetary allowances or of free goods of the same kind as the goods purchased. They should remember that both of these forms of deals are, in effect, ways of modifying standard price. If sellers are prohibited from using them, they are largely restricted to the alternatives of actually maintaining a standard price or of utilizing much more frequent changes in price quotations than has been their custom in the past. Such deals are in general condemned with the expectation that the alternative will be the possibility of maintaining current standard prices. However, it should be realized that the maintenance of standard prices would give an added competitive advantage to new manufacturers and private brands. If, on the other hand, in adopting a general prohibition of free deals the trade contemplate the use of frequently varied current price quotations, they should be aware that it will be the end of standard prices. All sellers should be aware of the fact that they must choose one of three courses, a rigid pricing system (which is an open invitation to competition), a relatively flexible system of price quotations, or such methods of deviation from nominal standard prices as free deals represent.

9. Finally, trade groups should consider carefully every aspect of deal provisions (and, indeed, of all other provisions) in relationship to the codes of their competitors. Trade groups which bind themselves to more rigid restrictions on any of their practices, either of doing or being done by, than are current in the world of which they are a part may find that they have eliminated certain difficulties but invited elimination of themselves in the process.

APPENDIXES

APPENDIX A—SOME-

Giver	Recipient	Basis for the Offer[b]	Revenue Good or Service	Gift
Manufacturer	Wholesaler	Direct purchase	Insecticide	Insecticide
			Hand-sprayer	Hand-sprayer
			Assortment of both	Insecticide
Manufacturer	Wholesale buyer	Direct purchase	Table syrup	Table syrup
		Sale	Table syrup	Discount
				Credit memorandum
Manufacturer	Wholesale buyer	Sale	Baking powder	Cash rebate
Manufacturer	Wholesaler	Direct purchase	Soap powder	Soap powder
				Discount
			Toilet soap	Toilet soap
				Discount
	Retailer	Indirect purchase	Shortening	Store clock
	Consumer	Indirect purchase	Shortening	Cooking utensils
Manufacturer	Wholesaler	Direct purchase	Mustard	Mustard
Manufacturer	Cash customer	Direct purchase	Feed	Premiumgoods
Manufacturer	Consumer	Indirect purchase	Mash product	Feed-hopper
Manufacturer	Retailer	Indirect purchase	Noodles	Display rack
Manufacturer	Retailer and consumer	Indirect purchase	Canned milk	Premium
Manufacturer	Consumer	Purchase	Phonograph or radio-phonograph	Records

Other Features

Three optional deals offered simultaneously for a limited time, each approximately equivalent to an 8 per cent discount.

Temporary, local, 1 case free with 10 cases.
Discount as a reduction in invoice price.
Temporary, local, equivalent to a discount of almost 6 per cent, administered by count and re-count.
Deal period Oct. 19–Nov. 14. Administered through count and re-count. Five per cent rebate.
One case free with 10 cases, ½ case with 5½, ¼ case with 2¾, or discount on 1 or 2 cases.
Same as soap powder deals except in ratios of approximately 1 case free with 5.
Offered only on 20-case orders, usual order being for 10 cases.

Glass measuring cups, bowls, pie plates, and other premiums with purchase of 1 or 2 cans of shortening. Value varies, being equivalent to a discount of about 13–14 per cent.
One-month deal timed to anticipate seasonal sale of product. One case free with 25 cases or 5 with 100.
A succession of different premiums offered over a period of years as an alternative to cash discount. Discontinued because customers lost interest; may be resumed.
One feed-hopper for chicks with each 10-lb. purchase, to introduce the mash product.
One rack with a purchase from a wholesaler of enough packages of noodles to fill it. (This offer could also be classed as an advertising allowance.)
Administered through coupons in cases and on labels of revenue goods, redeemable at premium stores or directly by manufacturer.

Gift of 12 records with each phonograph. Delivery direct from the factory spread over a year by giving a late record each month.

Giver	Recipient	Basis for the Offer[b]	Revenue Good or Service	Gift
Manufacturer	Consumer	Purchase	School shoes	Automatic pencil
Manufacturer	Consumer	Purchase	Gasoline, grease, greasing job, oil change, or car wash	Kitchen equipment
Manufacturer	Children	Indirect purchase	Coffee	Discount on purchase of amusement
Manufacturer	Consumer	Direct purchase	Hair dye	Discount
Manufacturer	Consumer	Indirect purchase	Coffee	Coffee
Manufacturer	Consumer	Indirect purchase	Toilet soap	Toilet water
Manufacturer	Consumer	Indirect purchase	Dried fruit	Satisfaction
Manufacturer	Wholesale buyer	Direct purchase or sale	Washing compound or household cleanser	Compound or cleanser
	Retailer	Indirect purchase	Either product	Either product
	Consumer	Indirect purchase	Either product	Either product Discount
Manufacturer	Wholesale buyer	Direct purchase	Spices	Spices
	Retailer	Purchase	Spices	Spices Other goods made by giver

Other Features
One pencil with each pair of shoes purchased at manufacturer's retail stores.
A late summer offer. A choice of any one of several pieces of kitchen equipment with each purchase of 7 gallons of gasoline, 5 pounds of grease, 1 greasing job, 1 oil change, or 1 car wash from manufacturer's chain of gas stations.
One-week's vacation special. Certificates having a cash value at neighborhood amusement park delivered with purchases carried home.
Temporary. A coupon which entitled holder to a $2 discount on a $5 package was printed in a recent periodical.
Sample with every pound purchased within a stated period.
Unit package containing revenue and premium goods manufactured by same company offered over retailers' counters for 42 per cent less than the standard price for both.
Manufacturer matches consumer purchases by gifts of dried fruit to Salvation Army for distribution to the unemployed. Consumer sends top of package to manufacturer.
Either as gift with purchase of other. Sales checked by count and re-count.
Either as gift with purchase of other.
Local, of about 2-week duration. Coupons distributed from house to house redeemable by retail grocers who receive cash reimbursement from manufacturer. One coupon entitles holder to 10-cent package of either product with the purchase of one package of same product, to 10-cent package of either with the purchase of one of the other, or to a 10-cent discount on the purchase of a 25-cent package of one with the purchase of package of other.
National. Company has given deals to both wholesalers and retailers on spices continuously for years, intends that they shall be passed on as received.
National. Company's specialty salesmen secure orders but wholesalers deliver both revenue and deal goods. Other goods made by company include mustard, peanut butter, cream of tartar, and specialties.

Giver	Recipient	Basis for the Offer[b]	Revenue Good or Service	Gift
Manufacturer	Retailer	Indirect purchase	Drug product	Same drug product
Manufacturer	Retailer	Indirect purchase	Wash cloths	Reduced price
Manufacturer	Retailer	Indirect purchase	Drug product	Same drug product
Manufacturer	Retailer	Indirect purchase	Moth repellent	Moth repellent and display stand Electric pencil
Manufacturer	Retailer	Indirect purchase	Laxative	Laxative and mailing list blanks
Manufacturer	Retailer	Indirect purchase	Animal remedies	Animal remedies
Manufacturer	Retailer	Indirect purchase	Razors and blades	Razors and blades
Manufacturer	Retailer	Indirect purchase	Assorted medicines	"Calendars and book mailing"
Manufacturer	Retailer	Indirect purchase	Cough drops	Cough drops and hore-hound drops
Manufacturer	Retailer	Indirect purchase	24 drug products	(See last column)

Other Features

Duration of 3 or more months. Gift of ½ doz. tins with 1 doz. tins. Deal goods delivered by wholesaler.

Special price on 1 carton of 14 packages of assorted colors, offered as a deal for the month of October.

For 7 months or more. Company sends 1/12 doz. small-size units and ½ doz. trial-size units direct to retailer who purchases ½ doz. small-size units from wholesaler.

In the second deal, overlapping in time the first deal, retailers were given an electric pencil if they bought 4 times the amount of goods required under first offer. Change from distribution of gift through wholesaler to distribution by manufacturer.

Wholesalers permitted to sell only 2 deal orders to any 1 retailer. Deal offered for 1 month in fall. A specified assortment of 10-, 25-, and 50-cent sizes carried gift including 25-cent and sample sizes and mailing list blanks.

Distribution of free goods through wholesalers. Deal offered from November through spring on assortments or single items. Amount of gift varied from 13 to 20 per cent, increasing as amount of purchase increased.

Continuous. Administered through wholesale distributors. Deal goods in special boxes for consumers.

Gift sent direct to retailer by manufacturer. More or less continuous deal (This could also be classed as an advertising allowance.)

With orders for equal quantities of 2 varieties of 1 brand of revenue goods were given additional quantities of same goods and also horehound drops, altogether equivalent to a 29 per cent discount. Offered for 2-week period in October. Free goods delivered by wholesalers.

Elaborate set of deals, based on 13 of the products sold separately and all 24 in various combinations. Great variation in gifts. Identical goods, same goods with superficial difference in color or in size of package, combinations of both, and goods made by another company are examples of the many gifts used in connection with deals on products sold separately. Goods unlike those purchased, manufactured by either the giver or some other company, and goods the same as part of the revenue goods have been offered in great variety with combination purchases. Some deals for short periods, others extended over 7 or more months; some administered simply, others by complicated plans.

Giver	Recipient	Basis for the Offer[b]	Revenue Good or Service	Gift
Manufacturer and retailer	Consumer	Indirect purchase	Kitchen cabinet	Household goods
Mining company	Consumer	Purchase	Coal	Plane ride
Publisher	Subscriber	Direct purchase	Periodical	Dictionary
				Encyclopaedia
Publisher	Subscriber	Direct purchase	Periodical	Opportunity
Publisher	Subscriber	Direct purchase	Periodical	Bread knife
Mail-order house	Consumer	Direct purchase	General merchandise	General merchandise
Wholesaler	Consumer	Purchase	Coffee	Premium
Wholesaler	Retailer	Direct purchase	Groceries	Typewriter
Wholesaler	Consumer	Indirect purchase	Tea	Jig saw puzzle
Wholesaler	Consumer	Indirect purchase	Strawberries	Toy airplane
Voluntary chain	Consumer	Direct purchase	Broom	Rubber apron
			Spices	Salt and pepper shakers
			Tomato juice	Drinking glass
Voluntary chain	Consumer	Direct purchase	Groceries of own brand	Discount on silverware
				Toy airplane

Other Features

Throughout its experience company has offered local deals of 8–10 days' duration. Deal period announced in offering advertisements. Retailer purchases at a low price from manufacturer and delivers free to consumer such products as electric clocks, kitchen cutlery, aluminum ware, silverware, table linen, and dishes.

One ride in autogiro with each purchase of 5 tons of branded anthracite coal.

Dictionary offered with 17-week trial subscription or encyclopaedia with longer subscription, for limited period only.

Subscribers who renewed for 1 year were given opportunity to give 1 non-subscriber a 3-month subscription. Renewals for more than 1 year carried more than 1 introductory subscription.

Only on prepaid 1-year subscriptions.

Constant use of premiums since 1885. Publication of catalogue in back of which available premiums are described. Price for revenue goods listed in catalogue quoted "with premium." Premium goods listed as available "With $—— purchase or coupons." Customer permitted to substitute cash for coupons at rate of $1.00 in cash for each $2.00 in coupons.

"Premium parlor" coupon enclosed with small tin for household consumers (indirect purchasers) and several such coupons in large tin for restaurants, hotels, and institutions (direct purchasers). Applied only to wholesaler's brand.

To new customers only.

Applied only to wholesaler's brand.

With purchase of 3 cans of wholesaler's brand.

Revenue goods made by 3 different manufacturers and related to gifts through use. Deals on brooms and spices offered simultaneously, on tomato juice 1 month later.

Thirty tokens which accompanied revenue goods and 75 cents required to obtain silverware. Toy airplane given to children only, in exchange for 5 labels from revenue products.

Giver	Recipient	Basis for the Offer[b]	Revenue Good or Service	Gift
Corporate chain unit	Consumer	Direct purchase	Any product	Gold fish and bowl
Corporate chain unit	Consumer	Direct purchase	Man's shirt	Laundry service
Corporate chain	Consumer	Direct purchase	Any product	Premium
Corporate chain	Consumer	Direct purchase	Toothpaste Mouth wash Olive oil Toothpaste Assortment	Play ball Football Salad silver Puzzle Toy
Corporate chain	Consumer	Direct purchase	Razor blades	Cigarettes
Retailer co-operative	Consumer	Direct purchase	Groceries	Premiums
Retailer	Consumer	Direct purchase	Teapot Brush	Tea Soap
Retailer	Consumer	Direct purchase	Clothing	Discount
Retailer	Consumer	Direct purchase	Shoes	Handbag
Retailer	Consumer	Direct purchase	Furniture	Furniture
Retailer	Consumer	Direct purchase	Jewelry	Gasoline
Retailer	Consumer	Direct purchase	Automobile	Case for keys
Retailer	Consumer	Direct purchase	Confections	Confections
Retailer	Consumer	Direct purchase	Electric refrigerator	Electricity

Other Features

Offer from a drug-chain unit on purchases totaling $1.00 or more on either of 2 consecutive days.

Coupon entitling bearer to have shirt laundered once at local laundry given with purchase at limited price variety store.

Combination tobacco, candy, and novelty chain changed from use of coupons redeemable by giver to no deals and then to coupons of independent premium company.

Gift of play ball in summer changed to football in fall and to variety of articles in winter. Change of revenue good from one product having giver's brand to another. Use by some units of chain of premium coupons redeemable in merchandise purchased from the sales promotion department of the chain.

Local drug-chain offer. Choice of any 1 of 10 brands of cigarettes. Gift equivalent to about 20 per cent price reduction. Reservation of privilege to restrict quantity of any purchase.

"Premium parlor" trading stamps given with each 10-cent cash purchase, or 20-cent credit purchase if paid for within 10 days.

Weekly change of revenue and deal goods. Said to be a retaliation by members of an alliance of hardware retailers against those who give hardware with the purchase of groceries.

"Dividend check" acceptable in payment for subsequent purchases given to customers with paid-up charge accounts.

Offer of $1.00 gift with every pair of shoes selling for $2.95 or more to attract customers to new store.

Any 1 of 6 suites of furniture offered free with purchase of any other 1.

Special offer of 20 gallons of gasoline in an early Christmas sales campaign, beginning Oct. 15, to any customer who would open an instalment account with a purchase amounting to $9.95 or more.

Case bearing dealer's name given with keys for car purchased.

Year-end merchandise dividend equivalent to minimum months' purchases in year to steady customers who pay accounts before tenth of month following purchase.

Coupon for 100 kilowatt hours of electricity free with every electric refrigerator.

Giver	Recipient	Basis for the Offer[b]	Revenue Good or Service	Gift
Retailer	Consumer	Direct purchase	Vacuum cleaner	Silverware
Retailer	Consumer	Direct purchase	Dairy products	Glassware
Department store	Children	Direct purchase	Hair cuts	Jig saw puzzles
Contractor	Consumer	Direct purchase	Plumbing	Plumbing
Electric company	Consumer	Direct purchase	Vacuum cleaner	Table lamp
Filling station	Consumer	Direct purchase	Gasoline or oil change	Ebonyware
Service station	Consumer	Direct purchase	Car service or tire	Glassware
Filling station	Consumer	Direct purchase	Grease jobs	Water heater
Service agency	Consumer	Direct purchase	Laundry	Bath set
Service agency	Consumer	Direct purchase	Painting or decorating	Tilt-top table
Service agency	Consumer	Direct purchase	Dry cleaning	Electric mixer
Service agency	Consumer	Direct purchase	Laundry	Storage bag
Insurance company	The insured	Direct purchase	Fire insurance	Fire extinguisher
Violinist	Audience	Direct purchase	Program	Encore

[a] This list is by no means all inclusive, but, as far as it goes, it is an accurate answers to questionnaires.

[b] For explanation of terms used in this column, see pp. 14–17.

Other Features
Trade-in allowance on purchase price of new cleaner replaced by set of silverware having retail price equal to about twice the average trade-in allowance.
Coupons, acquired gradually with small purchases, exchanged for gift.
Cards left at houses entitled holder to introductory offer of half-hour's service free with the purchase of 1 or more hours; for limited period.
Gift applied to several well-known brands of vacuum cleaners.
Offer for limited time to celebrate first anniversary of introduction of own brand of gasoline. Original time-limit extended.
Ten deals, all effective for 1 month, offered in single advertisement. Choice of 10 different assortments of glassware with purchase of a tire or any 1 of 9 assortments of car service..
Heater of standard make given to every customer who orders 5 grease jobs.
Old customer required to secure a new customer for giver as well as to purchase $25 worth of service at regular prices within about 10 months. Each new customer was offered in turn a small gift if he bought service in the amount of $3.00 within 4 consecutive weeks. Repetition of plan tried preceding year, with table linen as the free goods.
Deal offered by an association of master painters and decorators to customers placing a $50 order between Mar. 20 and May 12 with any 1 of their members.
Seasonal offer for limited period. Gift of moth-proof bag to accomany every blanket laundered.
One with each $1,000 of insurance written.

curate report of deals described in actual deal offers, trade papers, and

APPENDIX B

SOME PRODUCTS KNOWN TO HAVE CARRIED DEALS*

absorbent cotton
adhesives
alarm clocks
albolene nose sprays
alemite service
aluminum cleansers
ammonia
andirons
animal medicine
antiseptics
aspirin chewing gum
automobile equipment
automobile oil change service
automobile wax
automobiles

babies' rattles
babies' supplies
baby carriages
baby yards
bakery products
baking powder
baking soda
balm
balsam
bandages
bath salts
bath scales
bath towels
bathing suits
bathroom cabinets
bathroom seats
batteries
bed springs
bedroom suites
bedspreads
belt dressing
belts
bicycles
bill folds
bird cages
biscuit flour
blankets
bleaching products
bluing
bluing soap
books
borax
boys' shirts
boys' suits
bran
bran flakes
bread
bricks
brief cases
brooms
brushes
buckwheat flour

* This list was compiled chiefly from questionnaires answered by manufacturers and wholesalers and from descriptions of deals in various trade papers.

building materials
bunion pads
butter

cake flour
camera films
cameras
camphorated mustard cream
candy
canned baked beans
canned beef stew
canned corned beef hash
canned crab meat
canned fruit
canned grapefruit juice cocktail
canned heat
canned lamb stew
canned milk
canned salmon
canned soup
canned spaghetti
canned strained vegetables
canned tomato juice
canned vegetables
car grease
car lubrication service
car washing service
carbonated beverages
casseroles
catarrh remedies
catsup
cedar chests
cement
chairs
chamois
cheese
chemical preparations
chewing gum
children's beauty parlor service
children's clothes
children's wagons
chinaware
chocolate
chromium finish sugar bowls
cider
cigarettes
cigars
citrus products
clay
cleansing fluid
clocks
coal
coats
cocoa
cocoa malted milk
cocoanut
coffee
coffee pots
coffee substitutes
cold remedies
combs
concentrated beef bouillon
condensed milk
contraceptives
cooked cereals
cookies
cooking oil
cooking utensils
corks
corn pads
corn starch
corn syrup
corsets
cosmetics
cough drops
cough syrup
crack filler
crackers
cream or paste insecticide

croup remedies
curling irons
curtains

dates
decorating service
dental poultices
deodorants
depilatories
desks
dessert preparations
dog powder
dog soap
dresser sets
dry cells
dry cleaning service
dry goods
dye powder
dye soap

electric fans
electric grills
electric heaters
electric heating pads
electric ironers
electric irons
electric light and power service
electric percolators
electric ranges
electric refrigerators
electric signs
electric table stoves
electric toasters
electric vacuum cleaners
electric vaporizers
electric waffle irons
electric washing machines
enameled ware
enamels
evaporated milk
extracts
eyewash

face powders
facial creams
facial lotions
facial tissues
false tooth powder
feeds
files
first aid supplies
fishing tackle
flash lights
flavoring extracts
floor polish
floor wax appliers
flour
flower seeds
food choppers
food coloring
forks
foundry supplies
fountain beverages
fountain pens
fresh milk
fruit cake mixture
fruit pectin
furniture
furniture polish
furniture wax

games
garment bags
garters
gas heaters
gasoline
gelatine
gelatine dessert
ginger ale
glass bottles

glass cooking utensils
glue
glycerine
grapefruit juice
gum

hardware
hair dressing
hair dye
hair lotion
hair nets
hair oil
hair tonic
hairbrushes
hairpins
hams
hand brushes
hand creams
hand lotions
hand mirrors
handkerchiefs
harmonicas
headache powders
heating pads
hosiery
hot chocolate powder
hot cocoa powder
hot water bottles
house furnishings
household cleansers
household sundries
household tissues

ice boxes
ice cream
ice cream freezers
incense
incense burners
individual drinking cups
ink
insecticide powder
ironing boards

janitors' supplies
jewelry

key containers
kitchen cabinets
kitchen utensils
knives

lamps
lard
laundry preparations
laundry service
laundry starch
lawn mowers
laxative chewing gum
laxative pain relief
laxatives
leather
leather belts
liniment
liquid dentifrice
liquid floor wax
liquid insecticide
liquid petrolatum
lubricating oil
lye

macaroni
malt syrup
malted milk
manicure equipment
manicure preparations
manufactured houses
margarine
marshmallow cream
marshmallows
mash products

matches
mattresses
mayonnaise
meals
meat dressing
medicated plasters
medicine
men's shirts
men's suits
men's ties
milk of magnesia
mincemeat
miscellaneous cigar store products
miscellaneous drug store products
miscellaneous garage service
miscellaneous grocery store products
miscellaneous jewelry store products
molasses
mops
moth exterminators
motor oil
mucilage
muffin flour
musical artists' performances
musical instruments
mustard

nail files
napkins
near beer
newspaper want ad service
noodles
nose sprays
notions

oil burners
oil capsules
ointment
oleomargarine
olive oil
opera glasses
orange juice
outing equipment

pain relief
paint
paint cleaner
painting service
pajamas
pancake flour
paper handkerchiefs
paper products
paste floor wax
peanut butter
peanuts
paper
pencils
pens
perfume
periodical publications
phonographs
phospho-lecithin
pie filling
pile treatment
pillowcases
pills
pipes
playing cards
plumbing service
plumbing supplies
pocketbooks
porcelain frogs
porch furniture
powder puffs
prescription ware
preserves
pretzels

pudding preparations
quick-drying floor wax

radio-phonographs
radio sets
radio tubes
raincoats
ranges
razor blades
razor strops
razors
rice
roof coatings
rubber gloves
rubbers
rubbing alcohol
rugs

sachets
salt
sand
sanitary napkins
satchels
savings bank service
school kits
scissors
scouring powder
scouring soap
scrubbing brushes
shampoo
shaving brushes
shaving creams
shaving lotions
sheets
shoe dressing
shoe polish
shoes
silver polish
silverware
skin lotion
smoked herring
smoking equipment
soap
soap beads
soap chips
soap flakes
soap powder
soda fountain dispensers
spaghetti
spices
sponges
spot lanterns
spray chemicals
stationery
steam pressure cookers
steel
stepladders
stove polish
stoves
suitcases
supports and suspensories
suspenders
sweaters
syringes
syrup

table covers
table glassware
table linens
tables
talcum powder
tapioca
tartar remover
tea
teapots
tennis racquets
textile products
theatrical performances
thermometers
thermos lunch kits

throat remedies
tincture of iodine
tinting powders
tires
tobacco
toilet tissues
toilet water
tonics
tools
tooth brushes
tooth filler
tooth paste
towels
toy gliders
trunks
tweezers
twine
typewriter supplies
typewriters

umbrellas
uncooked cereals
underwear
vacuum bottles
vacuum tubes
vacuum valves
vanity cases
varnish
vases
vegetable shortening
vitamin pearls

wall mirrors
wash cloths
wastebaskets
watches
water glass
water softener
waxed paper
welding wire
white shoe cleaner
white wheat flour
wire
women's bathrobes
women's dresses
women's negligees
women's scarfs
worm powders

yeast

APPENDIX C

QUESTIONNAIRE ON DEALS

(This questionnaire was sent to members of the trade by the Associated Grocery Manufacturers of America on behalf of The Brookings Institution. The purpose was to gather complete and detailed information regarding deals and to present it, together with conclusions drawn from a study of it, to the trade. A similar questionnaire covering the experience of wholesalers, both as recipients and as givers of deals, was sent to members of the National Wholesale Grocers' Association of the United States. Inquiries to other branches of the grocery industry and to other industries were much less extensive.)

Kindly reply to Dr. Leverett S. Lyon
The Brookings Institution
722 Jackson Place
Washington, D.C.

It is not desired to cover any questions in regard to deals which are used to introduce new products or old products in new territories.

1. Name of company?

2. Location of general office?

3. Distribution { National? / or / Name area covered }

4. What proportion of your volume of business to the grocery industry is in factory advertised brands?..... Factory unadvertised brands?.....Distributors' brands?.....

5. List the products which you sell to the grocery trade.

Check those in the merchandising of which you use deals. (As this question is intended to refer only to the use of deals upon established

products in established territories, do not check if deals are used only for introductory purposes.)

6. Approximately what proportion of your sales to the grocery trade are to

Wholesale grocers?
Retailer-owned wholesalers?
Chains (corporate)?
Voluntary chains?
Retailers? (Excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself.)

Signed by.....
TITLE

Fill out one questionnaire for each product.

QUESTIONS TO BE ANSWERED FOR ONE PRODUCT

(These questions apply only to deals on established products in established territories.)

Name of product and of brand (for example, Beachnut Peanut Butter)

.....

TYPES OF DEALS

Deals Given to the *Wholesale Trade:*

1. Deals based on purchases from you

a. Do you use deals of so many cases of this product with purchase of so many
To wholesale grocers? Yes.....No.....
To retailer-owned wholesalers? Yes.....No.....
To chains (corporate)? Yes.....No.....
To voluntary chains? Yes.....No.....

b. Do you use deals in which you give with this product other saleable grocery merchandise of your own manufacture
To wholesale grocers? Yes.....No.....
To retailer-owned wholesalers? Yes.....No.....
To chains (corporate)? Yes.....No.....
To voluntary chains? Yes.....No.....

c. Do you use deals in which you give articles which you do not manufacture, such as cups and saucers, buckets, plates, silverware, etc., with this product
To wholesale grocers? Yes.....No.....
To retailer-owned wholesalers? Yes.....No.....
To chains (corporate)? Yes.....No.....
To voluntary chains? Yes.....No.....

d. Do you use *as deals* discounts from your usual wholesale price on this product? Yes.....No..... If so, check the method of payment used for each type of distributor.

	Cash Rebate	*Credit Memorandum*	*Reduction in Invoice Price*
To wholesale grocers			
To retailer-owned wholesalers			
To chains (corporate)			
To voluntary chains			

2. Deals to the wholesale trade based on their sales to their customers.

a. Do you use deals of so many cases of this product to your wholesale customers for sales of so many to their customers
To wholesale grocers? Yes.....No.....
To retailer-owned wholesalers? Yes.....No.....
To chains (corporate)? Yes.....No.....
To voluntary chains? Yes.....No.....

b. Do you use deals in which you give to your wholesale customers, for sales of this product to their customers, other saleable grocery merchandise of your own manufacture
To wholesale grocers? Yes.....No.....
To retailer-owned wholesalers? Yes.....No.....
To chains (corporate)? Yes.....No.....
To voluntary chains? Yes.....No.....

c. Do you use deals in which you give to your wholesale customers, for sales of this product to their customers, articles which you do not manufacture, such as cups and saucers, buckets, plates, silverware, etc.

To wholesale grocers? Yes_____ No_____
To retailer-owned wholesalers? Yes_____ No_____
To chains (corporate)? Yes_____ No_____
To voluntary chains? Yes_____ No_____

d. Do you use *as deals* to your wholesale customers, for sales to their customers, discounts from your usual wholesale price? Yes_____ No_____ If so, check the method of payment used for each type of distributor.

	Cash Rebate	*Credit Memorandum*	*Reduction in Invoice Price*
To wholesale grocers			
To retailer-owned wholesalers			
To chains (corporate)			
To voluntary chains			

e. If you give deals of any of the four types described just above how do you determine the sales made; for example by
Count and re-count? Yes_____ No_____
Affidavit of sales made? Yes_____ No_____
Copies of invoices? Yes_____ No_____
Or other methods? Please describe.

If you usually use some of these methods rather than others with certain classes of trade or types of deals, please indicate.

f. Do you use deals on this product to the wholesale trade for certain specific performances, such as the sale of orders of a minimum quantity, or to certain retailers, or to members only of a voluntary chain, or when sold cash and carry? Yes_____ No_____ If so, please describe, giving the specific performance desired, the classes of trade to which sold, the method of determining performance, methods of payment, and the like.

3. Please describe any type of deal on this product given to the wholesale trade which does not fall into the classifications given above.

Deals Given to the Retail Trade in Merchandising This Product (excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself).

1. Deals to retailers based on their purchases from wholesale distributors.

a. Do you use deals to retailers of so many units of this product with purchase of so many from wholesale distributors? Yes.....No.....

b. Do you use deals in which you give the retail trade other saleable merchandise of your own manufacture with purchases of this product from wholesale distributors? Yes.....No.....

c. Do you use deals in which you give to retailers articles which you do not manufacture, such as cups and saucers, buckets, plates, silverware, etc., with purchases of this product from wholesale distributors? Yes.....No.....

d. If you make a deal of any of three types described just above, how do you make delivery in each case?

e. Do you give *as deals* to retailers, for purchases of this product from wholesale distributors, discounts in which the retailer is paid
By check from you? Yes.....No.....
By the wholesaler's check or credit memorandum? Yes.....
No.....
By the wholesaler's charging the same back to you? Yes.....
No.....
By any other method?

f. If you use for this product other types of deals to the retail trade, for purchases of this product from wholesale distributors please describe, bringing out all important details of the deal, including method of payment, method of determining purchases, and the like.

2. Deals to retailers based on purchases *direct* from you.

a. Do you use deals to retailers of so many units of this product with purchases of so many direct from you? Yes.....No.....

b. Do you use deals to retailers in which you give, with their purchases of this product direct from you, other saleable grocery merchandise of your own manufacture? Yes.....No.....

c. Do you use deals to retailers in which you give articles which you do not manufacture, such as cups, saucers, buckets, plates, silverware, etc., with their purchases of this product direct from you? Yes.....No.....

d. Do you use *as deals* to retailers, on their direct purchases from you, discounts from your usual price to retailers
As a cash rebate? Yes.....No.....
As a credit memorandum? Yes.....No.....
As a reduction in invoice price? Yes.....No.....

3. Do you ever use deals to retailers for their sales of this product to consumers? Yes..... No.....
If so, describe methods showing how amount of sales is determined, what is given, whether this applies to retailers who buy direct or through wholesalers, etc.

4. Please describe any type of deal on this product given to the retail trade which does not fall into the classifications given above.

Deals Given to *Consumers* in Merchandising this Product.

1. Do you sometimes arrange that so many units of this product will be given to consumers with the purchase of so many? Yes.....No.....
If so, describe methods.

2. Do you sometimes arrange that, with the purchase of this product, other saleable merchandise of your own manufacture will be given to consumers?
Yes.....No.....
If so, describe arrangements, including method of checking purchases made, method of distributing and redeeming coupons or labels if they are used, whether merchandise is secured by the consumer through retailers or your own company or a separate agency or in package, and other details.

3. Do you sometimes arrange to give consumers articles which you do not manufacture, such as cups and saucers, buckets, plates, silverware, with purchases of this product?
Yes.....No.....
If so, describe arrangements, including method of checking purchases made, method of distributing and redeeming coupons or labels if they are used, whether merchandise is secured by consumer through retailers or your own company or a separate agency or in package and other details.

4. Do you sometimes arrange to give to consumers, on certain purchases of this product, a discount from the retailer's regular price to consumers? Yes.....No.....
If so, describe arrangements, including method of checking purchases made, whether and how coupons or labels are

used, whether they are used as part of the purchase price, how these are distributed, whether consumer receives discount as rebate from your company or a separate agency, or as lower price for his purchases from the retailer; if retailer handles discount how he is reimbursed, and other details.

ADMINISTRATIVE PROBLEMS OF DEALS

1. When and how the *wholesale trade* is notified of the *beginning* of deals. (If your method followed differs for different types of deals on this product or for different classes of trade, note these facts in your answers.)

When	*How*
a. The day the deal becomes effective? Yes_____ No_____	a. By letter or card? Yes_____ No_____
b. Several days before deal becomes effective? Yes_____ No_____	b. By telephone? Yes_____ No_____
c. Two or three weeks before deal becomes effective? Yes_____ No_____	c. By own salesmen? Yes_____ No_____
d. Other times?	d. Other methods?

2. When and how the *retailer* is notified of the *beginning* of deals. (If the method followed differs for different types of deals on this product or for different classes of trade, note these facts in your answers.)

When	*How*
a. The day the deal becomes effective? Yes_____ No_____	a. By letter or card? Yes_____ No_____
b. Several days before deal becomes effective? Yes_____ No_____	b. By telephone? Yes_____ No_____
c. Two or three weeks before deal becomes effective? Yes_____ No_____	c. By own salesmen? Yes_____ No_____
d. Other times?	d. By jobbers' salesmen? Yes_____ No_____
	e. Other methods?

3. When and how the *wholesale trade* is notified of the *termination of deals*. (If the practice followed differs for different types of deals on this product or different classes of trade, so indicate in your answers.)

When	*How*
a. The day the deal is terminated? Yes_____ No_____	a. By letter or card? Yes_____ No_____
b. Several days in advance of termination? Yes_____ No_____	b. By telephone? Yes_____ No_____
c. Two or three weeks in advance of termination? Yes_____ No_____	c. By own salesmen? Yes_____ No_____
d. Other times?	d. Other methods?

4. When and how the *retailer* is notified of the *termination* of deals. (If the practice followed differs for different types of deals on this product or for different classes of trade, so indicate in your answers.)

When	*How*
a. The day the deal is terminated? Yes_____ No_____	a. By letter or card? Yes_____ No_____
b. Several days in advance of termination? Yes_____ No_____	b. By telephone? Yes_____ No_____
c. Two or three weeks in advance of termination? Yes_____ No_____	c. By own salesmen? Yes_____ No_____
d. Other times? Yes_____ No_____	d. By jobbers' salesmen? Yes_____ No_____
	e. Other methods?

5. When you give a deal on this product do you protect floor stocks of your customers? Yes_____ No_____ (If the practice followed differs for different types of deals on this product or for different classes of trade, so indicate.)

   a. If you do protect floor stocks, what methods do you use? (If methods differ for different types of deals on this product or for different classes of trade, so indicate in your answers.)

Additional free merchandise? Yes_____ No_____
Cash? Yes_____ No_____
Credit memorandum? Yes_____ No_____
Other methods.

b. If you protect, by what methods do you determine the amount of floor stocks involved?
(If methods differ for different types of deals or for different classes of trade, so indicate in your answers.)
Count by your own representative? Yes_____ No_____
Customer's signed statement? Yes_____ No_____
Customer's verbal statement? Yes_____ No_____
Other methods.

6. In connection with deals on this product do you receive claims for stock protection which you believe to be out of line or irregular? Yes_____ No_____

a. If so, what remedial steps do you take?

b. Approximately what proportion of claims for floor stock protection do you believe to be "irregular"?

c. Of the total quantity of floor stocks for which protection is claimed, what proportion do you believe to be represented by "irregular" claims?

7. Do you invoice each type of deal on this product

With extra merchandise billed free? Yes_____ No_____
By lowered net price on entire order? Yes_____ No_____
By discount stated on the invoice? Yes_____ No_____
At regular price, with separate credit memorandum? Yes_____ No_____
Other ways?
(If methods differ for different types of deals on this product or for different classes of trade, so indicate.)

8. Are there deals on this product which are "on" continuously? Yes_____ No_____
If so, what forms do they take and to which trade groups are they offered?

9. Are there special periods of the year when temporary deals on this product are put into effect?
Yes_____ No_____

a. If so, what periods?
(If periods for deals on this product differ for different types of deals or for different classes of trade, so indicate.)

b. Why these periods?

10. Do you put on deals for this product whenever you believe a price concession might be desirable?
Yes_____No_____

11. How many times during the last twelve months have you run a deal on this product?
How many days was each deal on?
(Indicate type of deal and to which class of trade it was offered.)

Number of Days	Type of Deal	Class of Trade

12. Do you place any limitation upon the quantity of this product that may be ordered during a deal period?
Yes_____No_____
(If your practice on this point varies among different classes of trade, so indicate.)

a. If so, how is the limitation expressed?

b. Are these limitations set by definite policy or are they left to the judgment and decision of your field representative?

13. Do you grant extended credit datings on deals on this product? Yes_____No_____

a. If so, what is the normal time of extended datings?

b. Give reasons for extended datings.

14. Do you give customers booking privileges for future shipments beyond the termination date of deals on this product?
Yes_____No_____

a. If so, for what period of time?

b. Give reasons.

15. On which types of deals on this product is the regular price usually promptly restored?
(If practice varies for different classes of trade, so indicate in answer.)

16. Do you put on local or territorial deals on this product as distinguished from national deals on this product?
Yes.....No.....
If so, in what respects do the methods, amounts, time of year when put on, length of deal, etc., differ for local and territorial deals as distinguished from national deals?

17. In case of local or territorial deals on this product, what difficulties do you encounter in having the deals passed on to territory in which you did not intend to have the deal apply?

18. What methods do you prescribe in your deal offers on this product to keep the deal within desired territory?

19. Do you sometimes make a differential in quantities in deals on this product to different types of distributors?
Yes.....No.....
If so, to which classes of trade do you give larger quantities?

Wholesale grocers .....
Retailer-owned wholesalers .....
Chains (corporate) .....
Voluntary chains .....
Retailers .....

20. What classes of trade, if any, decline deals on this product?

Wholesale grocers .....
Retailer-owned wholesalers .....
Chains (corporate) .....
Voluntary chains .....
Retailers .....

Which class of trade takes up deals on this product most readily?

21. Which purchasers of this product have received from you during the past year the largest percentage of their pur-

chases of this product as free goods of the same kind on deals?

(Give the number "1" to the type of purchaser which has received the largest percentage; "2" to the type which received the second largest percentage; etc.)

Wholesale grocers _____
Retailer-owned wholesalers _____
Chains (corporate) _____
Voluntary chains _____
Retailers _____ (Excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself.)
Consumers _____

22. Which purchasers of this product have received from you during the past year the largest amount of other saleable goods of your own manufacture, considered as a proportion of their total purchases of this product? (Give the number "1" to the type of purchaser which has received the largest percentage; "2" to the type which received the second largest percentage; etc.)

Wholesale grocers _____
Retailer-owned wholesalers _____
Chains (corporate) _____
Voluntary chains _____
Retailers _____ (Excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself.)
Consumers _____

23. Which purchasers of this product have received from you during the past year the largest amount of goods such as cups and saucers, silverware, etc., which you do not manufacture, considered as a proportion of their total purchases of this product?

(Give the number "1" to the type of purchaser which has received the largest percentage; "2" to the type which received the second largest percentage; etc.)

Wholesale grocers _____
Retailer-owned wholesalers _____
Chains (corporate) _____

Voluntary chains _____
Retailers _____ (Excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself.)
Consumers _____

24. Which purchasers of this product have received from you during the past year the largest percentage of their purchases of this product as deal discounts?
(Give the number "1" to the type of purchaser which has received the largest percentage; "2" to the type which received the second largest percentage; etc.)

Wholesale grocers _____
Retailer-owned wholesalers _____
Chains (corporate) _____
Voluntary chains _____
Retailers _____ (Excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself.)
Consumers _____

25. In giving deals on this product of extra merchandise of the same kind to the wholesale trade, is your chief intention

That the deal shall not be passed on in any form? Yes_____ No_____
That the deal shall be passed on
In the form of the proportionate quantities of extra merchandise? Yes_____ No_____
By a proportionate reduction of price on purchases of such quantities as those to which the deal was applied? Yes_____ No_____
By a reduction in price on purchases of any size? Yes_____ No_____

If your intention differs for different classes of trade, so indicate.

a. What proportion of wholesale grocers to whom you sell follow your intention?
How is deal handled by other wholesale grocers?

b. What proportion of retailer-owned wholesalers to whom you sell follow your intentions?
How is deal handled by other retailer-owned wholesalers?

c. What proportion of chains (corporate) to which you sell follow your intentions?
How is deal handled by other chains (corporate)?

d. What proportion of voluntary chains to which you sell follow your intentions?
How is deal handled by other voluntary chains?

26. If you use deals in which you give to the wholesale trade, for purchase or sale of this product, other saleable merchandise of your own manufacture, what are your intentions as to the passing on of the deal?

a. What proportion of wholesale grocers to whom you sell follow your intentions?
How is deal handled by other wholesale grocers?

b. What proportion of retailer-owned wholesalers to whom you sell follow your intentions?
How is deal handled by other retailer-owned wholesalers?

c. What proportion of chains (corporate) to which you sell follow your intentions?
How is deal handled by other chains (corporate)?

d. What proportion of voluntary chains to which you sell follow your intentions?
How is deal handled by other voluntary chains?

27. If you use deals in which you give to the wholesale trade, for purchase or sale of this product, other merchandise such as cups, saucers, silverware, etc., which you do not manufacture, what are your intentions as to the passing on of the deal?

a. What proportion of wholesale grocers to whom you sell follow your intentions?
How is deal handled by other wholesale grocers?

b. What proportion of retailer-owned wholesalers to whom you sell follow your intentions?
How is deal handled by other retailer-owned wholesalers?

c. What proportion of chains (corporate) to which you sell follow your intentions?
How is deal handled by other chains (corporate)?

d. What proportion of voluntary chains to which you sell follow your intentions?
How is deal handled by other voluntary chains?

28. If you give *as deals* to the wholesale trade discounts from your usual wholesale price on this product, what are your intentions as to the passing on of the deal?

    a. What proportion of wholesale grocers to whom you sell follow your intentions?
    How is deal handled by other wholesale grocers?

    b. What proportion of retailer-owned wholesalers to whom you sell follow your intentions?
    How is deal handled by other retailer-owned wholesalers?

    c. What proportion of chains (corporate) to which you sell follow your intentions?
    How is deal handled by other chains (corporate)?

    d. What proportion of voluntary chains to which you sell follow your intentions?
    How is deal handled by other voluntary chains?

29. Do you intend that deals shall establish reduced prices which will reach the consumer? Yes.....No.....

30. In your opinion, about what proportion of the merchandise which you sell on a deal basis is sold to consumers

    At a reduced price per unit on any size sale?
    At a reduced price per unit on sales of certain minimum quantities?
    At regular price but with free merchandise included?
    At same price as if no deal had been given by you?

31. Purposes for which you use deals on this product and reasons why you believe the deals will accomplish your purposes. (If purposes vary with different types of deals or with different classes of trade, so indicate.)

    Do you give deals

    a. To increase inventories of your customers? Yes.....
    No.....

    b. To avoid guaranteeing against price decline? Yes.....
    No.....

    c. To unload overstock? Yes.....No.....

    d. To shift costs of carrying stock? Yes.....No.....

e. To increase business in a short period? Yes..... No.....

f. To sell the trade large stocks before season opens? Yes..... No.....

g. To stimulate sales attention on the product? Yes..... No.....

h. To promote and co-operate with special sales events? Yes..... No.....

i. Because it has been the custom of your company? Yes..... No.....

j. Because it is the trade practice? Yes..... No.....

k. To meet seasonal conditions (please explain fully)? Yes..... No.....

l. To meet conditions of business depression? Yes..... No.....
Specifically what conditions?

m. To meet competitive conditions? Yes..... No.....

n. Other purposes?

Discussion of any of the above purposes will be helpful.

32. What types of deals have you found best for this product? (If your answer varies for different classes of trade, for different parts of the country, or for other considerations, so indicate.)

33. Do you regard each temporary deal on this product as a temporary reduction in price? Yes..... No.....
If not, how do you regard it?
Is your view different on other products? If so, explain.

34. Are there any advantages in temporary deals on this product which you could not obtain by making a temporary price cut and quoting the change as a price and not as a deal? Yes..... No.....
If so, what are they? If your answer varies for different types of deals, so indicate.
Is your view different on other products? If so, explain.

35. What objections, if any, do you see in deals on this product? (If objections apply to some forms of deals more than to other forms, so indicate.)

    a. From the point of view of manufacturers?

    b. From the point of view of
    Wholesale grocers?
    Retailer-owned wholesalers?
    Chains (corporate)?
    Voluntary chains?

    c. From the point of view of retailers?

    d. From the point of view of consumers?

36. What suggestion for remedies have you to any of the objections you have mentioned?

SOME GENERAL QUESTIONS

1. In your opinion, what types of deals are generally most acceptable

    To wholesale grocers?
    To retailer-owned wholesalers?
    To chains (corporate)?
    To voluntary chains?
    To retailers? (Excluding all corporate chains and the wholesale unit of voluntary chains, but including such retail units of a voluntary chain as may act each for itself.)

2. In your opinion does the consumer benefit more from one type of deal than another or from deals to one class of trade than to another? Yes_____ No_____

3. Please list any comments or suggestions on deals which are not brought out in these questions.

INDEX

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