ADVERTISING ALLOWANCES

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ADVERTISING
ALLOWANCES

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A Phase of the Price-Making Process

BY
LEVERETT S. LYON

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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. As soon as the project is approved, the investigation is placed under the supervision of a special Committee consisting of the Director of the Institute and two or more selected staff members.

It is the function of this Committee to advise and counsel with the author in planning the analysis and to give such aid as may be possible in rendering the study worthy of publication. The Committee may refuse to recommend its publication by the Institution, if the study turns out to be defective in literary form or if the analysis in general is not of a scholarly character. If, however, the work is admittedly of a scholarly character and yet members of the Committee, after full discussion, can not agree with the author on certain phases of the analysis, the study will be published in a form satisfactory to the author, and the disagreeing Committee member or members may, if they deem the matter of sufficient importance, contribute criticisms for publication as dissenting footnotes or as appendices.

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.

DIRECTOR'S PREFACE

Three years ago the Institute of Economics published a book by Mr. Lyon on *Hand-to-Mouth Buying*. In the collection of materials for that volume, and in the analysis of various phases of the problem with which it dealt, the author had the cordial and helpful assistance of numerous business concerns and trade associations. The results of this collaboration between commercial organizations and an independent scientific agency proved so stimulating and helpful that proposals were made for the continuation and expansion of similar activities in an adjacent field. One of these took the form of an inquiry from the Executive Committee of the Grocery Trade Practice Conference as to whether the Institute could undertake an investigation of certain problems in trade ethics and regulation with which the Committee was then confronted.

Our first reaction was that these problems were probably too restricted in nature to fall properly within the purposes of the Institute. Preliminary investigation, however, made it clear that industries other than those in the food trade were interested in the matter suggested for investigation, and that the problems which concerned the Committee were of vital significance to the trade practice conference movement generally. It appeared further that the problems which present difficulty to one industry in establishing a code of ethics and practice in its own regulation are parts of the larger problem of competitive industry. Inquiry into them, therefore, offered the possibility of making a contribution to our general thinking on the subject of price policies, competitive methods, and economic regulation. The project seemed the more worth while as it involved the exploring of data on pricing practices, chiefly in the scantily investigated field of branded and advertised products.

The study has progressed in a very satisfactory manner and has come to embrace a rather wide range of special topics in the general field of price policy. The present volume covers only one segment of the study. It is being published separately because it appeared that separate publication would give greatest effectiveness to the results of the investigation of the several problems which lie within the general field of this inquiry. It is our expectation that there will be several other volumes in the near future dealing with special phases of price policy, these to be followed in due time with a larger comprehensive treatment of the field in general.

The members of the staff who served on the committee which co-operated with the author in the preparation of this volume were Charles O. Hardy and Isador Lubin.

Edwin G. Nourse
Director

Institute of Economics
November 1932

AUTHOR'S ACKNOWLEDGMENTS

As is probably always the case at the conclusion of a study based largely on data secured directly from industry, I owe acknowledgments for a generous giving of materials and ideas to many individuals who can be named only at the risk of violating agreements of confidence. Acknowledgments to these individuals must, therefore, be limited to this general expression of appreciation and vicarious thanks to them through acknowledgments to the associations to which in most, though not in all, cases they belong. The associations which have been particularly helpful are Associated Grocery Manufacturers of America, National Wholesale Grocers' Association of the United States, National Chain Store Association, National Food Brokers Association, National Association of Retail Grocers, and the American Management Association.

The Executive Committee of the Grocery Trade Practice Conference has had an especially close association with the study. Members of this Committee, as indicated on an earlier page, first called our attention to the need for objective study of certain trade practices. The Committee has been continuously helpful both in discussing the various aspects of the problems involved and in enlisting the co-operation of the branches of the industry which it represents. The members of the Committee, moreover, met with me to give their criticisms and suggestions on the manuscript as the study was reaching final form, adding thereby to its clarity, accuracy, and balance.

During the early progress of the study I had a number of helpful conferences with H. R. Drackett and

George D. Olds, Jr. of Associated Grocery Manufacturers of America; with M. L. Toulme, secretary of National Wholesale Grocers' Association; with R. W. Lyons, executive vice-president of National Chain Store Association; with C. H. Janssen, secretary-manager of National Association of Retail Grocers; with Charles Wesley Dunn, general counsel for Associated Grocery Manufacturers; and with Dana T. Ackerly, of counsel for National Wholesale Grocers' Association. The first of this group, as chairman of the Executive Committee of the Grocery Trade Practice Conference, has been in constant touch with me as the study has gone on.

Others in the food industry to whom I am indebted for help, as officers 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 phases of the problem and preparing inquiries for securing 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; and Harry C. Faulkner of the same Association.

To W. J. Donald, formerly managing director of the American Management Association, I am grateful for aid in the preparation and circulation of questionnaires to the members of his Association, as I am to G. A. Renard of the National Association of Purchasing Agents for a similar service. For a consideration of my general conclusions concerning trade practice rules I am indebted to George McCorkle, chief trial examiner of the Federal Trade Commission, and to Nelson B. Gaskill, formerly chairman of the Federal Trade Commission.

Helen May Wheeler of our own staff has ably assisted me throughout the preparation of the book.

While the aid, suggestions, and counsel of those mentioned have been invaluable, no one but myself must be held responsible for the viewpoints taken or the conclusions stated.

Leverett S. Lyon

A STATEMENT BY THE EXECUTIVE COMMITTEE OF THE GROCERY TRADE PRACTICE CONFERENCE

Following the adoption of the present Grocery Trade Rules by The Federal Trade Commission, the Executive Committee of the Grocery Trade Practice Conference concluded that its most helpful effort in behalf of the industry would be to determine as accurately as possible certain factual data with reference to trade practices covered by the rules and to place this information at the disposal of the industry with such suggestions as might reasonably be made.

They determined that this survey should be made by research agencies of unquestioned reputation for accuracy and unbiased conclusion.

The Brookings Institution of Washington, D.C. is such an agency. It has the confidence of economists, of business men, of the many Departments of the Federal Government and members of our legislative bodies. It is an endowed research organization conducted with the sole object of ascertaining the facts about current problems and of interpreting these facts for the people of the United States.

The Executive Committee fortunately was able to interest The Brookings Institution in making this survey, largely upon the argument that practices referred to by the rules not only had a great effect upon the industry itself, but upon the consumer in whose services the industry was engaged. The Institution carried on this survey entirely on its own endowment and without any expense whatsoever to the grocery industry.

The present study upon "advertising allowances" is the first of a series to result. We believe that the policy of the Executive Committee and its selection of The Brookings Institution are fully justified by this report. It is thorough in its factual data, conclusive in its suggestions and well worth the most serious study and consideration by members of our industry and business men generally.

In the Executive Committee's endorsement of this report is included its deep appreciation and that of the Industry to The Brookings Institution.

The Executive Committee recommends for consideration by the Grocery Trade Practice Conference or by all those engaged in the Grocery Industry the following definitions. Their adoption now in principle and eventually in practice cannot but contribute to a greater trade good-will and a more satisfactory service of the industry in the public behalf.

The Executive Committee recommends on the basis of this study:

1. The term "Advertising Allowance" is to be used accurately and ethically only when applied to any arrangement for a payment or payments, for specific performances which are possible, practicable, capable of being audited and not in excess of a reasonable consideration for the services to be rendered.

2. "Advertising Allowance" agreements should definitely specify exactly how much shall be paid in money, credit, goods or services by the giver of allowances, exactly what services shall be rendered by the recipient of the allowance and the method of auditing performance which the allowance giver will employ.

3. "Advertising Allowance" agreements should not,

under any circumstance, refer to or be a part of any purchase price agreement pertaining to the goods to be advertised or other goods which may be sold to the recipient by the allowance giver.

4. Payments for advertising having all the characteristics described on ONE, TWO and THREE above, but which are not promptly divulged to all customers who can render a like service, shall be considered "secret allowances" and condemned.

Respectfully submitted,
The Executive Committee,
The Grocery Trade Practice Conference

CONTENTS

INTRODUCTION

The guidance, regulation, and control of economic activity—that is, its planning—have always been the central concern of students of society. To Adam Smith the great objective of such planning appeared to be such use of the world's resources of soil, minerals, equipment, and labor that each unit employed would yield society the greatest possible return in goods and services. He saw in mercantilism the institutional structure of a planned society, planned to accomplish the ends that those in control believed desirable. To accomplish the purposes he envisaged different planning was necessary. The tearing down of the generally prevailing structure of governmental prohibition and regulation was called for. The doing away with tariffs and bounties was necessary. In the place of such devices were needed those which would greatly increase the legal freedom to select one's own occupation; to buy and sell materials, goods, and labor in terms of voluntary agreement; and to utilize such methods of organization as one's own ingenuity could devise.[1]

In that later period in which the mercantilist mechanism was being dismantled and the "new economics" was taking its place, John Stuart Mill saw "the proper limits of the functions and agency of governments" as "one of the most disputed questions both in political science and practical statesmanship." He saw the question, "to what departments of human affairs that [governmental] authority should extend" as almost equal to the earlier

[1] Adam Smith, *The Wealth of Nations*, particularly Book IV, "Of Systems of Political Economy."

"subject of controversy, how government should be constituted."[2]

Even those who, in the period of change, believed that governmental authority should extend no further than absolutely necessary, believed, it seems safe to say, that it should extend very far. Those who urged *laissez faire* urged a philosophy of economic democracy, not economic anarchy. *Laissez faire* in economics, like democracy in politics, rests upon a long established, deeply laid "authoritative basis." Seen in its true relationship to the foundation of legal, political, and social institutions "not only is the province from which authority is excluded a narrow one, but even in that province *laissez faire* is conceived of as a mere means for securing some desirable social end. . . . Even its most extreme advocates do not conceive of *laissez faire* as a theory of predation, nor seek to justify it by any benefit, however great, which it may confer on the individual. On the contrary, over and above him, a conscious social end is set up, to the realization of which his activities must tend, and in view of which the policy itself is to be approved or condemned."[3] *Laissez faire* is, in other words, an institutional device for the achievement of a social purpose.

To draw the fine line between what is wisely governmental and what is wisely individualistic has been by no means the only difficulty which from Adam Smith's time to the present has beset those interested in the statecraft of a better economic society. To draw the fine line between liberty and license, between enterprise and predacity, between competition which is fair and competition

[2] John Stuart Mill, *Principles of Political Economy*, Vol. II, p. 64, 5th London ed. (or p. 385, New York ed. from 5th London ed.).

[3] An editorial, "The Authoritative Basis of *Laissez Faire*," by Walton H. Hamilton, *Current Economic Problems* (rev. ed.), p. 46.

which is foul as among "free enterprisers" themselves —this was and continues to be a task of perpetual difficulty. To draw this line congresses have legislated and courts repeatedly decreed. As it is drawn so is competition among competitors designed; so is this social instrument fashioned and re-fashioned on the basis of precedent, tradition, imagination, and ideals.

The philosophy expressed in

> New occasions teach new duties;
> Time makes ancient good uncouth;

applies no less pertinently to the methods of competitors and the devices for their regulation than it does to other aspects of social organization. While the expositors of competitive price were busy with the concepts of supply and demand, of the relation of prices to marginal costs, of prices fixed in an open market, and the like, manufacturers and others interested in selling found developing, or capable of development, a set of conditions which made possible "price policies"—a phrase which reflects a condition of at least partial control over the flow of goods to which the price policy is applied.

Centering about price policies and bearing in many cases a close relationship to branded, identifiable, and widely advertised goods there has grown up a new set of practices and phrases more familiar to the business man than to the economist. These practices have found expression in such terms as price maintenance, price cutting, price structure, allowances, deals, discounts, and guarantees against price decline.

In each of the practices indicated by these and other phrases there are involved not only problems of justice to the public but also problems of fair play among competitors. Attention has been attracted by a variety of forms of questionable competition which were earlier of little consequence or unused. The way of the price-policy maker has not proved to be an easy one either for himself or for those with whom he competes.

Thirteen years ago a new device to aid in the shaping of the competitive instrument, particularly as it affects the actions of competitors, came into existence. This is the trade practice conference. Its purpose is to afford a means through which representatives of an industry may voluntarily assemble under the auspices of the Federal Trade Commission "for the purpose of considering unfair practices in their industry and collectively agreeing upon and providing for their abandonment in co-operation with and with the support of the Commission."[4] The trade practice conference is a procedure whereby the competitors in an industry may undertake, themselves, to determine what shall be fair and unfair, to make their own rules of business conduct, to determine the character of competition among themselves—subject to sanction or acceptance by the Commission.[5] It has behind it the same general philosophy which developed the law merchant.

It is with the planning of one small part of society's imposing competitive mechanism that this book deals, a part which has been in one form or another a matter of concern both to courts and to trade practice conferences. The study undertakes:

1. To disclose the actual practices which are included in a broad term—advertising allowances—a term so loosely employed that its meaning is confused and confusing even to those who use it most frequently;

[4] *Trade Practice Conferences*, Federal Trade Commission, July 1, 1929, p. v.

[5] The same.

2. To analyze the effects of these practices upon the business to those who employ them, upon the costs of industry, and upon the consumer in whose interest the competitive, or any other, economic order must find its excuse for existence;

3. To suggest a policy in regard to the practices concerned, a policy which it is believed is in the interests of consumers and in the interests of business men so far as those interests can be clearly identified with the interests of consumers.

It is, in other words, an effort to ascertain and describe certain competitive practices, chiefly in the field of semi-monopoly, and to suggest, on the basis of the facts disclosed, the form which should be given to one detail of the social tool, competition.

CHAPTER I

THE ORIGIN AND DEVELOPMENT OF ADVERTISING ALLOWANCES

The precise origin of the advertising allowance is wrapped in that obscurity which conceals the beginnings of most trade practices. Yet it is safe to say that its development is closely related to the rise of branded goods, extensive national advertising, and the concentration of buying and distributing power.

The term "advertising allowance," although widely used in trade journals, has not found general discussion in economic texts or books on market organization. In trade parlance its use to cover a variety of overlapping meanings lends confusion to its employment. In certain trades the term is used not only variously but also to designate practices of which some are matters of violent dispute and heated controversy. To many it now connotes a sort of trade "no man's land," an area of distrust and suspicion, of fear and ill-will. In that area all elements have taken positions and charges and countercharges of wrongdoing have been hurled forward and back, but the confusion of the scene is such that it has been a Babel of tongues rather than a battle of issues.

The confusion has developed chiefly because, with changing trade conditions, the term has absorbed new meanings without in any great degree eliminating old ones. While a full comprehension of the various meanings of the term can best be developed as we proceed, it is important at the beginning to make a general statement of what it may be considered to include. An advertising allowance may be said to be a manufacturer's (or other seller's) contribution to the joint expense of his customer and himself for point-of-purchase promotion, real or nominal.[1]

Inasmuch as the manufacturer or other seller often encourages the dealer to undertake the local promotion, contributions to the dealer are frequently thought of, and in one sense properly enough, as payments to the dealer for services rendered. This latter point of view appears to have had some influence in developing the idea of an allowance for these services and, hence, the term "advertising allowance." Formerly advertising allowances were largely limited to promotional activities that might be called advertising even in a restricted sense of the word. They are now used much more broadly. While the contribution or allowance was originally for real services, this is no longer always the case. Such contributions, or payments, or allowances, which may be made in the form of money, services, goods, or discounts, have now become an important device not only for accomplishing trade promotion but also for giving price differentials and price reductions. It is in the use of this latter practice—payments or allowances, called advertising allowances, for giving price differentials and price reductions—that confusion and dissatisfaction have arisen.

The controversies, suspicions, and ill-will surrounding the term and the practices which it now covers center in such questions as whether the use of advertising allowances by manufacturers is ever an ethical practice; whether allowances are in some forms "legitimate" and

[1] The term "point-of-purchase" promotion is sometimes used to mean *only* publicity at the actual point of sale, the store of the retailer. In this study it is used in a somewhat larger sense to include all forms of local publicity.

in others obnoxious; whether they give discriminating advantages to certain distributors; whether they are a desirable practice even from the point of view of a single concern's business administration and, if so, what is the most advantageous way to utilize them. In short, the ethical, the economic, and the administrative aspects of advertising allowances are all matters of concern and discussion in the trades in which they have found extensive use.

As soon as manufacturers began to realize the importance of putting brands on their merchandise, they became conscious of the desirability of carrying their promotion of these brands to and through the point of purchase. Even before this the retailer was himself to some extent a local advertiser. But he was an advertiser of himself or his product without reference to particular manufacturers.

It is interesting, in these days when national brands and their standard prices are so well known that these brands are widely used as loss leaders and when retailers so generally advertise one brand or another, to realize that 40 years ago the retailer found it difficult to decide whether or not to mention a brand when advertising.[2] In 1894, for example, there appeared in a trade journal:

> A correspondent inquires whether it is better for a retailer to advertise "Smith's Salted Sour Krout" or simply "Sour Krout."
>
> To be a little plainer, he wants to know whether the hatter who sells Dunlap hats should advertise "Dunlap Hats," or mere-

[2] The problem whether or not to advertise a manufacturer's branded goods has in recent years arisen very actively in a new form. It is now the question whether to advertise a manufacturer's brand or a private brand.

ly hats, and whether the piano dealer who sells Steinway pianos ought to advertise "Steinway," or not.[3]

The editor's belief that a gain occurs for both manufacturer and dealer in brand advertising by the latter is indicated in his reply:

> I believe that it is very much better to advertise the name of well-known articles. In the case of pianos, for instance, all of the leading makes have been well advertised in one way or another, and the retail dealer gets his percentage of benefit from this advertising if he lets it be known that he handles one or more of them.[4]

Whatever the dealer may have decided about the relative advantages of different policies in the matter of brand advertising, there was no question in the manufacturer's mind. It was promotion of his brand at the point of purchase in which he was interested. It was in the practices that he adopted for such promotion that advertising allowances arose.

Perhaps the first trade practice which was a seed, so to speak, of advertising allowances was that of the manufacturer aiding his distributors by furnishing what came to be called "dealer helps." These took such forms as display racks, advertising cards, letters for local distribution, booklets, electros, road signs, and other mechanisms for showing off or ballyhooing the manufacturer's goods at or near the point of purchase. Each of these, it should be noted, may be viewed as a manufacturer's contribution to

[3] Charles Austin Bates, "Advertising for Retailers," *Printers' Ink*, Nov. 28, 1894, Vol. XI, p. 497.

Attention is called to the fact that whenever a trade name appears in this study the information concerning it has been taken from a published source. In no case has a trade name been used when the source of information was a confidential report.

[4] The same.

joint advertising by the dealer and himself, as a "payment" to the dealer for a service, or as an "allowance" for such a service. These terms did not, however, appear simultaneously with the practices.[5]

As early as 1895, well-organized plans for sharing the expenses of such help had been developed.[6] The trade press reported and described as co-operative advertising a specific example of the arrangements made by patent medicine companies with their dealers. The report stated:

> Various systems of advertising throughout the different towns, in co-operation with the local merchants, are now resorted to with marked success by many large advertising firms. By this means the expense is diminished for both the foreign and local firm, while the value of the advertisement to each is not in the least diminished but rather increased, since each proves a recommendation to the other.
>
> . . . .

[5] Trade journal discussion before 1910 has not been found to refer to the relationship as one of payment for a service.

[6] Indeed, a plan in which both manufacturer and dealer contributed to joint advertising, though through the operation of an intermediary rather than by contract with one another, was reported to have been in operation as early as 1889. The promoter of this plan is quoted as saying that, having sold space in a prospective publication to manufacturers of such products as Sapolio, Cuticura soap, Bissell carpet sweepers, Cottolene, and India tea, ". . . we go into a city and demonstrate to the leading merchant of that place that through the purchase of one, two, three or five thousand copies of *Modes and Fabrics* on a yearly contract (according to the size of town) that we can aid him very materially in the sale of his goods. . . . His own local announcements appear in full-page form in each copy. His name appears on front page of cover as publisher, and thus he becomes for his city practically the publisher of the magazine. He is thus able to introduce through his own medium in most acceptable and attractive form the manufactured article put out for acceptance by the public. In this manner he not only advertises himself and his store, but the houses from which he buys his goods. . . ." "The Co-operative Magazine," *Profitable Advertising*, Apr. 15, 1898, Vol. VII, pp. 424-26. (Unsigned.)

Similar plans later became popular in other fields; for example, in distributing automobile accessories.

While this plan of advertising very materially lessens the expense of the patent-medicine firm which gets out the circular, it by no means lessens the value or force of its advertisement, the ads of the local merchant rather serving to give the foreign firm prestige in the community than otherwise.[7]

The same report continued by expressing the belief that this advertising "though comparatively in its infancy is certainly destined to grow, and will doubtless be eventually adopted by all the leading advertisers in the United States."

A continuous discussion as to how payments for the costs of co-operative effort should be divided between manufacturer and dealer accompanied the growing use of dealer helps in the early part of the twentieth century.[8] While the example cited above demonstrates that

[7] Lloyd R. Ireland, "Co-operative Advertising," *Printers' Ink*, Feb. 6, 1895, Vol. XII, p. 20.

Co-operation in advertising by a manufacturer or other seller and his customer came later to be called *vertical* co-operative advertising to distinguish it from other co-operative advertising. For a general discussion of the term see L. C. Lockley, *Vertical Co-operative Advertising*, p. 4.

Local demonstrations of their products by manufacturers were also an early form of co-operative promotion. Such demonstrations were employed to introduce Shredded Wheat Biscuit and Ralston Foods as early as 1900. "Introducing a New Article," *Printers' Ink*, June 27, 1900, Vol. XXXI, p. 10. (Unsigned.)

[8] The advertising press in the first ten years of the twentieth century carried frequent discussions of the development and problems of co-operative arrangements being made in many lines of business. For example: "To help the dealer turn this publicity into sales the company maintains an advertising department that is always willing to write his newspaper copy for him, furnish him cuts, hangers, street-car cards, magazine illustrations, posters to be hung in store elevators, etc." "Working Close to the Retailer on Corsets," the same, Mar. 21, 1906, Vol. LIV, p. 14. (Unsigned.)

"Before coming to New York I had considerable experience in the advertising department of a leading daily in a large city in the West, and I happen to know that many department stores and retailers who were using cuts from manufacturers for their own advertising (following out the suggestion recently made by *Printers' Ink*, of a mutual sharing of some manufacturers even in the last century were finding it practicable to divide the cost of local advertising with their dealers, this was by no means always the case. Dealer helps were furnished in some cases at a profit, in others at cost, in others at a charge below cost, and in still others without charge. Almost at the beginning of the dealer-help or co-operative advertising movement there were presented cases in which it was impossible to say

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expense) and who had received a small appropriation, covering this service, were either using this special series of copy in a haphazard manner or not at all." "National Advertisers and Newspaper Advertising Co-operation with Dealers," the same, Feb. 2, 1910, Vol. LXX, pp. 32-34.

Herman Wile and Company, small clothing manufacturers of Buffalo, say: "We make it clear to our trade that we will meet them more than half way on any and all forms of advertising they will do to increase the sale of Hermanwile clothing." Luther D. Fernald, "Individual Advertising Co-operation with Retailers," the same, Feb. 16, 1910, Vol. LXX, pp. 48-49.

A clothing manufacturer, distributing through exclusive agents, not doing national advertising, decided in 1910 to try "what is known as localized advertising, or, co-operating—'linking up'—with the dealer." The advertising manager of this company reported on three plans in detail. (1) ". . . We paid for all of the space used, no matter whether we suggested the advertising to the customer, or he requested it, or the arrangements were made by one of our selling representatives." (2) ". . . We paid for only half instead of all the space used. . . . No preliminary space agreements were made." (3) ". . . This offer covered space occupied by fashion electros only, and once only; no credit for repetitions. We wanted to prevent 'standing' ads showing the same cut for several issues. Our object was to get our customers to use as many different cuts as possible." There was considerable flexibility within each of these general plans, though all arrangements were for definite and carefully checked co-operation. "Each season, regardless of special appropriations for localized newspaper advertising or any other kind, we have furnished all of our customers with style books, window display cards, pennants, banners, hangers, wood veneer signs, books of advertisements, posters, and street-car cards, price cards and special service on request." At the conclusion of this trial campaign "we can come to but one conclusion regarding localized newspaper advertising: That it is expensive and unfortunate philanthropy, not successful selling assistance. *Let the manufacturer manufacture and let the retailer retail.*" " 'Kettle Copy' and Long-Distance Publicity," *Advertising and Selling*, February 1912, Vol. XXI, pp. 40-45 and March 1912, Vol. XXI, pp. 88-94. (Unsigned.)

whether the expense was being shared by manufacturer and dealer in proportion either to the costs or to the benefits, and other cases in which it was clear that one or the other was paying more than a proportionate share.[9]

As competition to gain the dealer's co-operation in promoting particular brands increased, it became more and more difficult for the manufacturer to gain as much aid as he wished and more and more necessary that he pay at least his proportionate share. By 1910 there was complaint that it was hard to sell dealer helps, even hard to get them into use. In the drug trade it was reported: "Much material of dealer-help type is furnished free or at small expense. Much is not used."[10] In the sale of electrical appliances it was said: "The problem of getting dealers to use advertising helps is a serious one."[11] In 1919 a trade writer reported:

> At the present time the retailer is just about swamped with advertising matter, a great deal of which he cannot make use of either for lack of time or space or for the simple reason that he has no inclination to do so.
>
> Under such conditions it is easily seen that the advertiser does not stand much of a chance to charge even a nominal sum for the material which the dealer now gets gratis. . . .[12]

[9] Cases are not wanting of extensive local advertising campaigns supporting local dealers and carried on entirely by the manufacturer. For a rather elaborate example see the case of "Hot Point" electric iron, "How a National Market Was Built for 'Hot Point' Electric Iron," *Printers' Ink*, Jan. 5, 1910, Vol. LXX, p. 10. (Unsigned.)

[10] Frank Farrington, "A Druggist's Comment on General Advertising," the same, Jan. 26, 1910, Vol. LXX, p. 38.

[11] F. S. Ackley, "How General Electric Sells Dealers on Advertising," the same, Oct. 11, 1917, Vol. CI, p. 51.

[12] Editorial, "Should Advertisers Charge for Dealer Helps?," the same, July 31, 1919, Vol. CVIII, pp. 49-51. This writer states that in spite of these handicaps certain manufacturers selling to specialty stores such as men's clothing shops are still able to make a charge for their dealer helps.

However, even as late as 1932 charges for dealer helps had by no means disappeared. According to various trade journal articles Standard Brands, for example, supplies material on Fleishmann's yeast to bakers at cost;[13] Kelvinator Sales Corporation charges "... a portion of the cost of all helps. This includes printing, sampling, special promotion, obsolescence and shipping."[14] It is said that the annual sales of dealer helps of the Westinghouse Electric and Manufacturing Company are more than 150 thousand dollars—sales made at less than cost.[15]

During the period from 1895 to 1915 the ideas behind the practices of dealer helps changed. Along with the development of co-operative plans recognizing joint interests in point-of-purchase promotion there seems to have come increasingly the notion that aid to the dealer was in return for some sort of service rendered by him. Associated with this idea was the thought that the manufacturer's contribution to co-operative promotion was a payment for this service or an allowance therefor. Although the evidence is not clear, it is probable that the practice of making the contribution or payment of the manufacturer through a credit memorandum or other discount on bills rendered may have had some influence in developing the use of the term "allowance" and the impression that co-operative advertising involves a payment by a manufacturer for services rendered by a distributor.

[13] T. L. Smith, first vice-president, Standard Brands, Inc., "A Great Business Built on Service," *Executives Service Bulletin*, January 1932, Vol. X, p. 2.

[14] Vance C. Woodcox, "How We Cut Down Wastes in Handling Dealer Helps," *Sales Management*, Feb. 20, 1932, Vol. XXIX, pp. 257-58.

[15] Bernard A. Grimes, "Westinghouse Sells $150,000 of Dealer Helps," *Printers' Ink Monthly*, February 1932, Vol. XXIV, p. 57.

In general summary of these earlier phases of advertising allowances—whether called by this name, dealer helps, co-operation in advertising, or vertical co-operative advertising—three generalizations may be made. (1) By the middle of the nineties the manufacturers of nationally advertised branded goods had found it worth while to carry the promotion of their brand to the point of purchase, both in the dealer's store and in the dealer's local advertising; (2) in certain cases co-operative arrangements developed with the retailer were found to be more economical than alternative arrangements for gaining the same results; and (3) before 1915 manufacturers' aids to point-of-purchase promotion appear to have been typically, if not always, contributions to a real expense or a share of a real cost, or, put differently, a payment to the buyer for a promotion service actually performed. The term "advertising allowance" was not at first used but presently came to be applied to these general contributions or payments for service.

CHAPTER II

THE CURRENT CONFUSION IN ADVERTISING ALLOWANCES

The current confusion concerning advertising allowances would not have developed if manufacturers and other sellers had continued only to share with their customers the costs (no matter what name was applied to the contribution made) of the earlier types of point-of-purchase promotion. But, to paraphrase the poet, new occasions teach new uses.

I. COMMENSURABLE AND INCOMMENSURABLE PROMOTION

Economic changes brought the possibilities of new forms of local pushing, and ingenious sales managers and skillful buyers were not slow to undertake their exploitation by the well-established practice of advertising allowances.

In the development of new forms of advertising allowances in a changing situation difficulties and confusion have arisen. First, the costs of certain new possible services being difficult to measure are difficult to "allow for." Second, and equally important, checking of certain of the possible new services is impracticable, sometimes impossible. An examination of the following list of services, which includes those for which it is common to give advertising allowances, will illustrate the problems both of ascertaining costs and of checking performance.

A manufacturer or wholesaler may believe it worth while to give an allowance to the dealer for:

1. Promotive activities within the store, such as window displays, prominent location of goods on shelves

or counters, the use of selling equipment, show cards, or other printed matter.

2. Placing or featuring the seller's product under its brand name in the local newspaper advertising done by the distributor.

3. The distribution of samples, advertising novelties, handbills, or other literature advertising the seller's product.

4. Mention of seller's product in radio programs.

5. The obtaining of special advertising rates allowed (a) local advertisers as contrasted with national distributors[1]; (b) continuous advertisers as contrasted with others.

6. Store space furnished by the distributor for special demonstrations by the seller.

7. Promises by the distributor of "co-operation" or "pushing," that is, special attention to the seller's product.

8. Agreement to stock the seller's product in all or an agreed number of available outlets—as in the case of a corporate or a voluntary chain.[2]

9. Agreements not to handle directly competing merchandise.[3]

[1] The extent of savings which can sometimes be obtained in this way is shown in the following table. (The figures are based on 5,000-line rates in 1929.)

Percentage of Rate Differences	Number of Newspapers (Percentage of total)
National rate same as local, or less	30.6
National rate up to 15 per cent higher than local	21.2
National rate 15 to 30 per cent higher than local	25.2
National rate 30 to 50 per cent higher than local	17.1
National rate over 50 per cent higher than local	5.9

A Comparison of Local and National Newspaper Rates, Association of National Advertisers, Inc., p. 5.

[2] This may mean a few or several thousand units.

Among the possible services, the costs of which are difficult to measure, are window, counter, and shelf display. With the development of personal shopping accompanying the rise of cash and carry stores, and the ever intensified competition of nationally advertised brands, has come an increasing recognition of the importance of these forms of point-of-purchase promotion. Some trade writers even attribute the origin of advertising allowances to the "discovery" by the chains of the great value of display. While this is not a wholly accurate analysis, it emphasizes the new significance which has become attached to certain forms of point-of-purchase promotion with the development of cash and carry store merchandising.[4]

Among the possible services performance of which is

[3] H. A. Haring cites cases of this type and points out their conflict with the law and the resulting fact that they are of little value to the seller. See his "How Chains Peg the Price with 'Exclusive' Deals," *Advertising and Selling*, Mar. 4, 1931, Vol. XVI, p. 19.

[4] One writer says: "Not until chain methods of merchandising were developed did anyone grasp the cash value of display. For the stimulation of sales, both store display and window space had become accepted tools of storekeeping, but it remained for the chains to find in 'display' an item of merchandise to sell for money. 'Display' suddenly achieved a value, measurable in dollars and convertible into dozens or gross quantities of goods." H. A. Haring, "Loss Leaders are a Joke!," the same, Feb. 18, 1931, Vol. XVI, p. 19.

And again: ". . . The chains have demanded pay for displays. Their beginning to do so marks the birthday of the advertising 'allowance.' One buyer . . . put the case in this fashion: 'We used to be saps on dealers' helps. Why, we even paid for them! Now we tell the manufacturers they ought to pay us for cluttering up our windows. They pay for all their other advertising and so now they pay us, too.' " H. A. Haring, "If You Give 'Allowances,' Police Performance!," the same, Mar. 18, 1931, Vol. XVI, p. 22.

In 1913, Paul T. Cherington commented: "Another type of 'dealer help' which has grown very popular within the past few years is the putting out of window displays by the national advertiser. The dealer's difficult to measure need only be cited "pushing by salesmen." In arrangements for such types of promotion by distributors, manufacturers must rely upon the good faith of the distributors for their assurance of performance.

Advertising allowances have come to be made with comparatively little regard for relation between expenditure and promotive results. This has come as a consequence of giving them for services where either cost or performance or both cannot be well measured. Yet even when this is the case and is so recognized, the term "advertising allowance" is applied as freely as though the advertising to be done was the placing of a definite lineage at a definite rate per line. Vagueness in the meaning of the term "advertising allowances" has followed necessarily. From this vagueness there have been not surprising results. There has arisen a confidence on the part of buyers that to ask for an allowance for advertising is a possible way to secure a reduction in price larger than the actual service to be given in return. There has arisen a feeling on the part of sellers that to offer advertising allowances for certain not too measurable services is a method of making a price reduction. There has arisen a feeling on the part of manufacturers that their competitors are engaged in price cutting in disguise. There has arisen a feeling on the part of distributors that their competitors have found a way of securing unwarranted reductions.

There are chain-store executives who apparently believe that, for whatever purpose nominally given, an ad-

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window and its value to the national advertiser is a comparatively recent discovery. . . ." *Advertising as a Business Force*, p. 140.

vertising allowance is always a price cut. The point is made that a chain can afford to give promotive work only to those products which, because of the promotion given them by the manufacturer, are the most responsive to additional promotion. Says the advertising manager of one chain:

> . . . There are only about 50 products that can be really featured during the course of a year. Only products like . . . are well enough advertised and enjoy sufficient demand to warrant being heavily pushed. Yet we carry several hundred items, the manufacturers of most of which would like to have us push their products.
>
> Of these several hundred items we are able to mention about 75 per cent in our various forms of promotion during the course of a year. The emphasis on the item is, of course, in proportion to its profitability and its mobility. . . .
>
> In the various forms of promotion we can give the products we sell, we have room on the average for about 25 a week. Six or so will be the rapidly moving items that we can feature strongly. The remainder are but mentions. Such a policy is profitable to us. When we do feature a product not really worth the effort, invariably we lose out.[5]

A precisely similar philosophy is expressed in another statement ascribed to a chain-store buyer who is quoted:

> It would be impossible to conduct our business profitably if we did not merchandise our goods according to a carefully thought-out policy. We may pretend that our stores offer the manufacturer a profitable means of advertising and charge him accordingly, in order to get his lowest price; but if we are doing our work properly we can't offer a medium of advertising for manufacturers.[6]

If this position is soundly taken, the distributor, other

[5] D. V. Kilfoyle, "Another Angle on Advertising Allowances," *Sales Management*, July 25, 1931, Vol. XXVII, p. 130.

[6] James True, "The Discount Racket—Arch Enemy of Profits," the same, Feb. 14, 1931, Vol. XXV, p. 275.

things being equal, is well advised to put the greatest amount of pressure behind those products behind which the greatest pressure has already been put. This is an application to merchandising of the general economic law that the greatest expense is justified in utilizing those resources which are the richest.

Evils attendant upon advertising allowances given for services difficult to measure have been intensified by a failure to check up on the services promised.[7] With the development of less easily measured activities, checking has become less frequent and less carefully done. In part this is the inescapable result of the fact that it is in some cases partly useless and in others altogether so. Weak standards of enforcement, even when checking is possible, have added further to the confusion of loosely granted, loosely administered allowances.

The sums which go into advertising allowances have never been, perhaps cannot be, precisely ascertained. That

[7] The failure to police performance, as the trade commonly calls checking performance, is not, however, by any means universal. A particularly satisfactory method of checking used by one manufacturer is reported as follows: "This manufacturer . . . requires an invoice for each display. For counter displays, only the date is required and the grade of the store (in order to determine the rate of payment). For windows, however, each display is reported on a form which requires the signature of a witness, not an employee, for the first day of the display and another witness for the last (next to last day is acceptable). . . . Alternate displays must be witnessed by men and women, and several suggestions are made to the store manager to get as witnesses customers of prominence, although the witness is assured that no publicity will be made of his compliance. It is proposed, for instance, that the manager by telephone invite persons who do not ordinarily trade at the store to 'drop by' and sign the certificate!

"'Do you get the point?' grinned one buyer, 'Twice for every window, maybe 20 or 30 times a year, that manufacturer compels some person with buying power to look . . . at his display!" Haring, "If You Give 'Allowances,' Police Performance!," *Advertising and Selling*, Mar. 18, 1931, Vol. XVI, p. 22.

they are large enough to merit some attention to the checking of their use is certain from such evidence as is available. In a suit brought by Schulte Retail Stores, Inc. against Gillette Safety Razor Company in 1930 it was stated that the Gillette Company agreed to pay the Schulte Company 500 thousand dollars in one year for featuring Gillette blades.[8]

Trade inquirers report other enormous sums so allowed. While the accuracy of these cannot be taken with the same certainty as statements given under oath, a few may be cited. Among the cases given by one investigator are the following: A maker of women's toilet goods spent $2,218,000 for "space" in the usually accepted media and $2,150,000 for "allowances" in 1928. In 1929 the figures for the two purposes were respectively $1,890,000 and $3,400,000. In 1930 about $760,000 and $3,500,000 respectively were spent. A maker of smokers' accessories gives $422,000 for "co-operation." A maker of floor coverings spent between $500,000 and $600,000 (impliedly as allowances to furniture and similar chains) in 1930.[9]

II. ADVERTISING ALLOWANCES AS RELATED TO PRICE CUTTING

The term "advertising allowances," as indicated above, has come to denote price reductions as well as contributions for promotive action.

[8] *New York Times*, Mar. 20, 1930. The action, No. 2844, 1930, in the Supreme Court of New York County, was discontinued on stipulation on June 12, 1930.

[9] For details of these and other cases see a series of articles by H. A. Haring in successive issues of *Advertising and Selling* in 1931. Mr. Haring investigated allowances for this magazine. An instance in which the allowance was nearly 44 per cent of sales was reported by L. J. Gumpert in *Printers' Ink*, Apr. 7, 1932, Vol. CLIX, p. 3.

Advertising allowances as price reductions include two classes of activities. One is a reduction in price as part of a planned selling strategy. It is price reduction made with the idea that the price to the consumer will be lower.[10] It is price cutting not disguised.[11] The term "advertising allowances" is applied to such reductions in several forms, of which the following three are important.

1. Allowances for reductions to consumers. In spite of the fact that manufacturers of branded goods usually desire to have their products sold at list price, there are some who care little for list price at any time, and others who occasionally or frequently desire to have the list price cut with a view to moving more merchandise.[12]

2. Allowances for special sales events, in which the allowance reimburses the dealer for loss on loss leaders, one-cent sales, dollar-day sales, and the like.

3. Allowances for "double" trading stamps. Such reductions obviously allow the distributor to make an additional expenditure for trading stamps.

In all of these forms a price reduction by the giver of the allowance is involved and could be made as such and with no relation to the word "advertising." While in these cases the purpose may be to expand sales, in no one of them is the purpose promotive in the sense in which the word "advertising" is ordinarily used.

The second class of advertising allowances in the form

[10] These plans, of course, sometimes come from suggestions of buyers.

[11] Advertising allowances in price cutting as part of a planned selling strategy might have been discussed earlier in this analysis as a co-operative plan, were it not for the fact that they are not promotional devices in the sense in which most co-operative advertising plans are. It has seemed best, therefore, to discuss them here as one of the ways in which the term "advertising allowance" is applied to price cutting.

[12] Compare L. C. Lockley, *Vertical Co-operative Advertising*, p. 78n.

of a price reduction does not involve a definite plan that the consumer shall be benefited. In this form the term is employed to denote a reduction of price when there is no agreement concerning the buyer's action beyond that implied in the mere use of the term "advertising allowance." If the consumer benefits, it is an incidental result of the arrangements, not an essential part of the plan. There is no reason to believe that these allowances are offers of the seller any more frequently than they are concessions obtained from him by severe pressure from buyers.

The application of the term "advertising allowance" to such price cutting may, it appears, be attributed largely to the ideology of the manufacturer, or other seller, concerning a standard price. Typically he has a standard price which he announces as such. He prefers not to admit violations of his faith to his customers (even to the ones who receive advertising allowances), to his competitors, or even to himself. To call a price cut a price cut is apparently at times beyond the power of a true believer in a one-price religion. Therefore, when a radical reduction is necessary, the seller's sense of impropriety must be covered with some respectable garment. The term "advertising allowance" will serve, and has widely come to serve, the purpose. This simple ritual of applying a term having a reputable but also an indefinite meaning to practices regarded by the trade as questionable has gone far toward facilitating almost every sort of violation of the one-price standard and enabling at least some avowed believers in standard prices to rationalize a pricing system as elastic as that in an oriental bazaar.

In addition to calling his price cut an advertising allowance, the one-price manufacturer usually covers such allowances with secrecy. Indeed (lest he be suspected of evil) he may even consider it desirable to keep secret the arrangements which he makes for definite and real advertising co-operation. Unhappy repercussions are often the result. If the fact of secrecy becomes known, there is always suspicion even when the actual arrangement justifies no condemnation.[13]

III. ADVERTISING ALLOWANCES AS SAVING THE GIVER FROM PROMOTION WORK

An allowance which is said to be given as a means of saving the giver from promotion work is often called an advertising allowance. The most important illustration of this is receipt of an allowance by a distributor who buys a manufacturer's goods without the manufacturer's label and thus without any gains which may come from the manufacturer's advertising of his brands. This policy is a wholly practicable one from the standpoint of a wholesale house, voluntary chain, or corporate chain which uses a private brand.[14] The demand for an allowance is justified on the ground, as already suggested,

[13] Since the recipients of secret allowances are usually much less careful than are the givers to keep the arrangements secret, such arrangements are often revealed.

[14] An extreme example of such an arrangement is the campaign described below.

"The foundation of this campaign was to be nationally advertised products, sold under the distributors' name. These products were to be shown in the store and listed in the catalogue with a special mark—possibly a star—and a vast sum was available for advertising to acquaint the buying public with the fact that any article so marked was the best that money could buy *at any price and was the exact counterpart of a widely advertised brand.* All articles not 'hall-marked' were the best that money could buy *for the price.*

". . . The manufacturer is to allow this distributor his regular advertising margin on each article." J. C. Aspley, "Another Hand at the Throat of Advertised Products," *Printed Salesmanship*, September 1929, Vol. LIV, pp. 15-17.

that the purchaser is procuring something less valuable than he would have procured had he purchased branded goods.

However much the manufacturer may dislike this argument, there is in it a certain ironical logic in view of the fact that he has for two score years contended that branded goods might be expected to move at higher prices and narrower margins as a result of the promotive effects of national advertising.

The argument is also made to the manufacturer that he has been at no expense in advertising the unbranded units purchased. The manufacturer cannot contend that he has advertised *these units*, though he may have made this type of product popular. In making the allowance he is subsidizing the purchaser to compete with his own brand, a situation into which it would appear that he could be led only by: (1) A policy of figuring costs which does not spread marketing and advertising costs over all units produced; or (2) such high prices on his own brand that his customer is able to buy satisfactorily competitive goods if the manufacturer does not make the concession. In the latter case there may be expected at least a temporary gain to the consumer through lower prices. Particularly low operating costs of certain distributors combined with a resale price maintenance policy of the manufacturer may furnish a special inducement in the first of these two cases. A distributor with exceptionally low operating costs may persist in selling a given product below the suggested resale price. Rather than see his resale price structure thus broken a manufacturer might be able, by a special price, to induce such a distributor to accept shipment under some other than the manufacturer's brand.

Although, as stated, the trade uses a reasoning in this type of advertising allowances different from that used in allowances made for promotive work, these allowances really have, in certain cases, much in common with the latter type. The advertising allowance given for promotion may save the seller from an expense, as does the kind just discussed. In other cases, however, advertising allowances given for promotion may give the seller a service which he could not perform himself.

IV. CONFUSION IN COMPUTATION AND PAYMENT

The several purposes for which advertising allowances are employed, the changing economic structure to which adaptation has been attempted, the difficulties inherent in measuring the services performed or the values given have resulted in a variety of methods of computing advertising allowances and paying for them which are not always clearly differentiated and which are by no means standard in practice.

Methods of determining the size of an advertising allowance to be given to a customer may be classified in four chief forms. (1) A computation may be based on the outlays made by the recipient, as in cases where the manufacturer requires invoices of costs incurred for local advertising. (2) An allowance may be based on specified services such as window displays, in which the charge is based on an estimate of benefit to the giver of the allowance rather than on costs incurred by the recipient. (3) A computation may be made in terms of volume of sales, such as a certain allowance per unit of product.[15] (4) It may be that no computation is made or at least that none

[15] This would not include the cases where a payment for costs incurred is limited to not more than a certain amount per unit of product sold.

is apparent. The allowance is stated merely in terms of the whole amount in a given case.

Payments of advertising allowances are also made in confusing variation. These, as pointed out on page 7, for the most part take the form of services, free goods, credit allowances, cash payments, and price reductions. More than one of these methods may be employed in a single instance. The concept "standard practice" has little, if any, meaning in giving compensation in advertising allowances. Free goods are most commonly used in the case of an allowance for stocking or where samples or advertising material are given.[16] Services are employed chiefly in helping the dealer with a promotion program. A credit memorandum may be used in almost any one of the various forms of advertising allowances. Cash payments are common where the arrangement involves a bill rendered by the distributor to the manufacturer and are also frequently used in secretly granting advertising allowances which are in reality price cuts.[17]

Advertising allowances grouped according to the purpose for which they are said to be given are of three forms: (1) those given as a means of extending to the point of purchase the promotion of a given product; (2) those given as a means of cutting the price on a certain product; (3) those given as a substitute for other promotion of a product.

In many instances it is difficult, if not impossible, to

[16] That portion of advertising materials the cost of which the manufacturer assumes, when part of the cost is paid for by the distributor, may also be thought of as free goods.

[17] In interviews with manufacturers and distributors the writer has in a number of instances been told of large cash payments for advertising allowances being made, some of them merely by checks left on the buyers' desks without memoranda of purchase attached.

measure the cost of services for which advertising allowances are intended to pay, or to ascertain whether the terms prescribed are carried out. These difficulties discourage effective administration of allowances and cause attempts to check on performance to be widely neglected.

From the variety of purposes for which allowances are used and from the difficulties in measuring results there follows a confusing variety of methods in computation and payment, quite lacking in that standardization which gives facility and economy in business procedure.

CHAPTER III

ADVERTISING ALLOWANCES IN THE GROCERY INDUSTRY

There is probably no phase of advertising allowances discussed in the preceding pages which could not be repeatedly illustrated in the grocery industry. Indeed, as comprising a series of branded and nationally advertised products sold through distributors, the grocery industry is one of those which has lent itself particularly to the development of advertising allowance arrangements. Moreover, the specific forms and usages of the grocery industry may be regarded as reasonably illustrative of advertising allowance methods in other trades in which they are common.[1]

I. EXTENT AND FORMS

There is probably no better way to measure the extent of advertising allowances in the grocery industry than by determining the proportion of manufacturers and wholesalers who give them and by determining, as nearly as is possible, the amounts given.

Approximately three out of four grocery manufacturers give advertising allowances. Of 48 manufacturers re-

[1] The data concerning the grocery industry were, excepting where otherwise indicated, obtained from the trade by a series of questionnaires and a large number of interviews and discussions with manufacturers, wholesalers, independent retailers, corporate and voluntary chain-store executives, and brokers. The basic questionnaire, answered by manufacturers, appears in the appendix. This questionnaire covered not only advertising allowances but also a number of other trade practices. Similar questionnaires, appropriately adapted to the situation, were either mailed to or used in personal interviews with other divisions of the trade.

porting specifically on whether or not they give them, 34, that is, 71 per cent, replied in the affirmative. Of these, 4 indicated that the practice is rare rather than regular. The credibility of this proportion is supported by comparable returns obtained by others. Craig Davidson reported:

> ... One prominent wholesaler with a voluntary chain of about 300 stores tested the willingness of practically every large manufacturer of grocery products in this country to grant an advertising allowance. The proposition was legitimate, but of doubtful value on its face. Yet the size of the wholesaler's purchases was so great as to make any manufacturer hesitate to turn down the request. Nevertheless one-third of them did, stating a definite and reasonable policy with regard to such allowances.
>
> The others agreed to allowances of varying amounts, obviously based on the volume of the wholesaler's purchases.[2]

L. C. Lockley, summarizing reports received in 1930 from 29 grocery manufacturers, found that 19 (66 per cent) of them make use of advertising allowances in some form.[3]

But advertising allowances in the grocery industry are not limited to manufacturers. Obviously they can be given by anyone who sells to other sellers, since anyone who sells may advertise. The investigation of allowances was, therefore, extended to wholesale grocers.[4] A survey of the practices of eleven representative and widely scattered wholesalers disclosed that advertising allowances

[2] *Voluntary Chain Stores*, 1930, p. 305.

[3] Lockley gives reasons for believing this to be a conservative estimate of the extent of the practice. *Vertical Co-operative Advertising*, pp. 37, 39-40.

[4] A questionnaire covering approximately the same questions as did the one sent to grocery manufacturers but adapted to wholesalers was in most cases filled out in an interview with each of a representative though not large group of wholesalers, most of whom gave complete replies.

are given by some wholesalers though by a somewhat smaller proportion than of manufacturers. Five of these eleven wholesalers give advertising allowances in one form or another.[5]

The amounts of money and goods given as advertising allowances in the grocery trade are large enough to make them of great significance to all parties concerned. They are so large that if given only to certain types of outlets or to individual competitors they may be fatal to the others. They are reported by manufacturers,[6] for example, as being 2½, 3, 4, and often 5 per cent of the purchase price.[7] What such allowances may mean, if given to some but not to all, is apparent when one is reminded that regular chains are believed to operate on a margin of from 15 to 20 per cent, that some voluntary chain wholesalers are now reporting gross margins as low as 6 per cent, and that voluntary chain retailers' margins range from 10 to 12 per cent.[8]

Where "flat amounts" are paid there is not any necessary relationship either to sales promotion or to sales volume. The writer has received a number of reports of large checks paid to companies or their buyers as advertising allowances without reference to any specific arrangement for promotion work. Such payments are one of the forms which advertising allowances take when they are really

[5] Craig Davidson concluded that wholesalers generally give retailers approximately the same advertising allowances as do voluntary chain wholesalers to their own member retailers. *Voluntary Chain Stores*, pp. 13-14.

[6] Data are from author's inquiry.

[7] Indeed, one beverage manufacturer reported to Lockley that he had given to a chain, in a city in which his sales had been weak, an advertising allowance equal to 34 per cent of that chain's purchases. *Vertical Co-operative Advertising*, pp. 36-37.

[8] V. H. Pelz, *The Voluntary Chains—An Evolution in Distribution*, American Institute of Food Distribution, 1930, p. 36n.

price concessions. Since they are the type very likely to be kept secret, little dependable information concerning them is available.[9]

The amount of advertising allowances to co-operative grocery chains has been summarized by the Federal Trade Commission. The amount of contributions or allowances which 99 such co-operative chains reported having received from manufacturers in 1929 is $250,832, which is an average of $2,534 per organization. Two of these voluntary chains stated that their entire advertising services were paid for by manufacturers; some stated that they made a profit, namely, the difference between the national line rate allowed by the manufacturer for advertising and the local rate paid by the co-operative; still others, however, reported either very small contributions or none at all. On the average about 38 per cent of advertising expenditures of co-operative grocery chains in 1929 was paid by contributions from manufacturers.[10]

That such allowances to voluntary chains are often mere concessions or are payments not related to specific performances is pretty well evidenced. A bulletin of a Southern voluntary chain, which lists 40 co-operating grocery manufacturers, most of whom are prominent national advertisers, is quoted as saying:

> Our costs of operating, including advertising bills, salaries, rent, postage, stationery, and other necessary expenses are being

[9] For illustrations of such payments see statements of H. A. Haring: ". . . An officer of a chain . . . handed [showed, not paid] me a check from . . . manufacturer to that chain for $81,631. The payment was an 'allowance' for the preceding three months." "'Allowances' to Chains Are Mulcting Advertisers of Millions," *Advertising and Selling*, Feb. 4, 1931, Vol. XVI, p. 18.

[10] 72 Cong. 1 sess., S. doc. 12 (*Report of the Federal Trade Commission Relative to Co-operative Grocery Chains*), pp. 125-26.

paid through advertising allowances by various manufacturers.[11]

The circular of another voluntary chain soliciting membership of independent retailers stated:

> The entire costs of operating the X.Y.Z., including advertising bills, stationery and postage, all salaries and traveling expenses, office rent and employees, and all other expenses, are being paid through advertising allowances by the manufacturers whose goods we sell. These allowances relieve our member stores from all advertising costs, dues and fees. The allowances also permit monthly patronage dividends to each store.[12]

A study of the arrangements made in advertising allowances shows great diversity. Whether this results from the variety of situations in which intelligent adjustment requires individual differences, or whether it is due merely to a willingness to make some sort of deal which can be called an advertising allowance, cannot be said with certainty. Whatever may be the reason, extensive variation does exist in the amounts paid, the basis of computing payment, the forms in which payments are given, the degree to which checking is done on results, the extent to which formal plans are used, and the type of promotion agreed upon.

The relative importance of the various types of printed advertising in arrangements made between manufacturers and the co-operative grocery chains to which they gave advertising allowances in 1930 is indicated in the table below. The proportion of chains reporting arrangements for the use of each type of media are:[13]

[11] Lockley, *Vertical Co-operative Advertising*, p. 38.
[12] H. A. Haring, "Shall We Spend Our Money for 'Allowances' or for Advertising?," *Advertising and Selling*, Apr. 1, 1931, Vol. XVI, p. 18.
[13] 72 Cong. 1 sess., S. doc. 12, p. 125.

Newspapers	87.7 per cent (of 236 reporting)
Bulletins	29.1 per cent (of 158 reporting)
Other media	28.5 per cent (of 249 reporting)

A Chicago advertising man is quoted as saying that in several territories grocery chain executives are experimenting with plans to sell window displays at a fixed price or for a percentage of their retail sales.[14]

According to a published report, Sprague, Warner and Company, wholesalers, selling primarily through exclusive agents, in 1930 inaugurated an elaborate co-operative advertising plan.

> . . . The company provides him [the retailer], on a twelve-month contract basis, with four-page illustrated recipe folders, to be sent to his customers each month. These are supplied to him in any quantity he desires, and at cost. If he wants to mail them himself he pays two cents each. If the company mails them direct to his customers he pays four cents, which includes addressing and postage.[15]

Slightly less than one-third of the reporting manufacturers who use advertising allowances have what they call a standard arrangement.[16] Another third reported that while they do not regard their advertising allowances as following a standard plan, they limit themselves to a certain type of practice, thus in a sense at least having definite standards within which they confine their ad-

[14] *Facts in Food Distribution,* Apr. 2, 1932, Vol. V, p. 6.

[15] "At the top of the front page of every folder is a single and prominent line of type that reads 'Richelieu Foods of the Month.' Immediately below this line is imprinted the name and the address of the agent's store."

This plan was supplemented by coupon advertising, the offer of recipe books to dealers on a co-operative basis, and other features. Clayton B. Trost, "A Direct-Mail Tie-Up between National Advertising and Dealers' Stores," *Printed Salesmanship,* May 1932, Vol. LIX, p. 210.

[16] Author's survey of 48 companies.

vertising allowance activities.[17] In considering the extent to which standard plans are used, it is worth noting that a manufacturer may have a standard plan and yet give advertising allowances which do not fall within it. That is, there is plenty of evidence in the returns that when the situation in the judgment of the manufacturer calls for an advertising allowance to which his standard plan is not adapted, some other plan is devised.

Those grocery manufacturers who reported that they do not have standard plans appear, in some cases at least, to be those who make less use of advertising allowances than others. One manufacturer reported, for example, that he has no standard plan as "allowances are only made in very special cases." Another reported: "We use it seldom and then only in new territory." On the other hand, the lack of standardization is not limited to manufacturers who make infrequent use of allowances. One concern whose policy reflects a catch-as-catch-can attitude reported, for example: "It depends upon the condition, account, sales volume, and sales possibility and the amount of payment involved." Another with a similar approach reported: "No plan; practice varies according to product and kind of sale."[18] Another of the variable plans described is that of a manufacturer who, at the beginning of each year, allots to each product a certain amount of advertising appropriation above the national advertising quota. This sum is used strategically according to the developments during the year. Sometimes the company

[17] Lockley, with reports from 19 grocery manufacturers who use advertising allowances, refers to 8, that is, 42 per cent, as offering "fairly definite standard plans." *Vertical Co-operative Advertising*, pp. 39-40.

[18] Lockley found that 11 of 19 companies which use allowances make such "concessions . . . as warranted by the particular competitive situation." The same, p. 40.

"samples a town" or distributes coupons to a town; sometimes it advertises locally, or pushes a special product in some town; and occasionally it pays dealers to perform certain services, such as distributing circulars.

Even among manufacturing companies which have standard plans there is much variation of practice. One manufacturer who has a plan which shows an effort to relate expense to services renderéd reported: "We pay for space actually used on our products at the national line rate in newspapers. We pay our proportion of space used on our products on handbills, circulars, and the like." The plan of another manufacturer of the same type of products shows an effort to manage his practice in such a way that it is related to costs incurred by the distributor. He reported: "We pay for exclusive 'x' [his brand] advertisements (1) in newspapers on the basis of actual space used at newspapers' published line rates; (2) in dealers' handbills on the basis of actual space used at uniform fixed rates depending upon size of handbill and quantity issued. Dealer has option of using (1) or (2) at our expense but not both. We will not pay any dealer for co-operative advertising unless we have authorized it. This plan was put into effect April 22, 1931. Prior to that, we had no co-operative advertising arrangement."

A third manufacturer of the same type of products said: "The standard plan, recently adopted, provides a co-operative advertising arrangement which is limited to the paying of national line rate for space used in newspaper advertising. This also applies to handbills and circulars. A few exceptions involve the payment of a flat weekly charge for definite advertising service and results." A fourth manufacturer of similar products uses advertising allowances by "paying space rates for newspapers and proportionate share of cost of handbills."

The practice of a manufacturer of a quite different product shows a quite different arrangement. He reported: "Occasionally one extra case free with 20 is given to advertisers for featuring our goods. This arrangement is made, however, only when it is impossible to secure the desired co-operation for nothing. All bills are checked with care before they are passed for payment. To our largest customer we allow a discount of 5 per cent paid quarterly—to our second largest, 3 per cent paid monthly for advertising. These two do not receive the one free with 20 cases deal, above described, at any time."

A manufacturer, whose products include both canned and packaged goods, in describing his advertising allowance plans stated: "We limit the allowance to 2½ per cent of estimated potential volume when no definite volume quota is practicable." Another manufacturer of a considerable range of products computes his allowance on the principle of allowance per unit of product. His plan is fairly standard, being, as he reported it, usually 5 per cent of purchases.[19]

One large company relies on the method of a flat amount for any one of a series of services, some of which, it appears, might not only have considerably greater

[19] Minnesota Valley Canning Company sells Del Maiz corn and Green Giant peas. It allows each customer a regular percentage to be used for local advertising to be dispensed through the Minnesota Valley Canning Company's advertising agency. Thus, the canner's agency handles national advertising and is advised of the number of dollars to be allowed each customer for local advertising. Agency notifies customer before each national campaign and customer informs agency of local campaign and expense involved. If agency approves, it pays expense and charges canner, who allows agency a commission on this business. Thus canner's national agency can check up on use of advertising allowance made to customer. G. A. Nichols, "How to Harness the Advertising Allowance," *Printers' Ink*, Jan. 2, 1930, Vol. CL, p. 17.

value than others but also be far more readily measured. The company reported: "We pay 50 cents in cash or merchandise for one week's display in store, newspaper advertising, or weekly circulars." Another company which gives advertising allowances in payment for definite services performed and for no other reason has nevertheless a very flexible plan. The practice of this company is: "Written contract covers all arrangements with customers for advertising. Method of figuring amount due varies according to product. No deductions from our invoices permitted and no payments made without proof of advertising from customer."

One manufacturer makes a graduated advertising allowance based on volume.[20] He grants 2½ per cent allowance for 10,000 cases, 3 per cent for 15,000, and 3½ per cent for 20,000 or over. Another manufacturer has a standard plan which is reported to apply only to customers purchasing in excess of a rather large stipulated amount. "These," this manufacturer stated, "receive a 5 per cent advertising allowance upon submitting receipt for advertising."

Methods of computing advertising allowances in the grocery trade may be arranged in three groupings. Since manufacturers not infrequently reported more than one plan for advertising allowances, they often have more than one method of computing them. Of the manufacturers using allowances:

66 per cent sometimes pay for space used or other costs actually incurred;
63 per cent sometimes pay a flat amount;
47 per cent sometimes pay an allowance per unit of product sold.

[20] This statement was not from a manufacturer, but from a chain store, and covered an arrangement with a manufacturer.

While slightly more than half the companies limit themselves to one of these classifications of computation, 19 per cent use two of them, and 28 per cent use all three.

II. WHO RECEIVES ADVERTISING ALLOWANCES?

Much of the trade discussion of advertising allowances by those who believe that they make possible discriminatory prices centers around the question of who receives them. As shown in the illustration of plans used, certain manufacturers give advertising allowances only to purchasers of more than a certain minimum quantity. This obviously makes impossible the advantages of the advertising allowance to those who buy in smaller quantities. To those who hold that any price arrangement other than one price to all is inequitable, this fact will make such prices discriminatory. To the extent that the allowance for larger customers, however, is closely related to savings incurred, it may be held that no unfair discrimination results. It may be also that only the larger purchasers are in a position effectively to advertise the products of these companies.

The heated controversy as to whether there is possible discrimination by advertising allowances usually centers in the question of which trade groups receive them most commonly. Of the 34 manufacturers reporting the use of advertising allowances, 31 reported the chief trade groups to which they are given.[21] It will be well to note

[21] No definition of trade groups was presented to manufacturers in asking for information on this question. It seems doubtful if any more accurate classification of particular distributors can be obtained than that which is given them by manufacturers concerned. The questionnaire, therefore, requested manufacturers to "interpret the . . . list of distributors as you do in your own sales operations." Although the terms "regular" and "centrally managed" were used in the questionnaire, the term "corporate" is used in this volume to denote all chains other than voluntary chains.

that advertising allowances are sometimes given by manufacturers to distributors to whom they do not sell. Four manufacturers who did not report sales to independent retailers give advertising allowances to them; one company not reporting sales to voluntary chains reported that it gives advertising allowances to voluntary chains; and one manufacturer reported advertising allowances to department stores, although no direct sales to them were reported. In these cases the independent retailers, voluntary chains, and department stores made their purchases and received their advertising allowances through wholesalers.

The reports of the 31 manufacturers who stated the trade groups to which they give allowances are analyzed below. The first column shows the number selling direct to each specified trade group. The second column shows respectively the number giving advertising allowances to each group.

Selling Direct to:		Giving Allowances to Group:
Corporate chains	31	27 (87 per cent)
Voluntary chains	27	23 (85 per cent)
Independent Retailers	18	8 (44 per cent)
Wholesalers	31	13 (42 per cent)
Department stores	16	5 (31 per cent)
Mail order houses	16	3 (19 per cent)

Three conclusions are possible from these data. Voluntary and corporate chains receive advertising allowances from almost equal proportions of the allowance-giving manufacturers who sell to them. Independent retailers receive them from an almost equal proportion of such manufacturers as do wholesalers. And, the proportion of the total number of such manufacturers selling to each type of distributor who give advertising allowances to each type of distributor is almost twice as large for each form of chain as for either wholesalers or independent retailers.[22]

Ten manufacturers reported the trade groups to which they give allowances most often, second most often, and third most often. A careful examination of these rankings led to the following conclusions:

1. Voluntary and corporate chains receive advertising allowances from these companies with practically identical frequency.

2. Wholesalers and independent retailers receive advertising allowances from these companies with almost identical frequency.

3. Voluntary and corporate chains each receive advertising allowances much more often than do either wholesalers or retailers.

These data, therefore, lend support to the conclusion stated just above that the two types of chains fare about equally well in receiving advertising allowances and both fare decidedly better, about twice as well, as either wholesalers or retailers.

It is important to realize, however, that there is no

[22] As a check to these conclusions, another computation was made in which the number of manufacturers giving advertising allowances to each type of distributor was figured as a percentage of all manufacturers selling direct to that type of distributor. The reports of 44 manufacturers, tabulated below, check closely with the conclusions given.

Selling Direct to:		Giving Allowances to Group:
Corporate chains	44	27 (61 per cent)
Voluntary chains	38	23 (61 per cent)
Independent retailers	23	8 (35 per cent)
Wholesalers	44	13 (30 per cent)
Department stores	23	5 (22 per cent)
Mail order houses	21	3 (14 per cent)

evidence that manufacturers give advertising allowances to any type of distributors merely *because they are in a particular trade class*. That is to say that while the data indicate that chains, for example, receive advertising allowances more often than do independent retailers, the data do not show that they so receive them *because they are chains*. The explanation as to why advertising allowances go more frequently to certain classes of distributors than to others must be made, it would appear, in factors of business judgment which manufacturers believe to be adequate. Since manufacturers at times give advertising allowances to all types of distributors, it seems certain that they give advertising allowances whenever they believe circumstances either justify or compel such action. The evidence seems conclusive that relations with certain distributors more often than with others furnish manufacturers the conditions which either justify or compel advertising allowances. Conditions which manufacturers believe do justify advertising allowances are obviously (see pages 45-47) opportunities for such promotion as local newspaper advertising and window display. Conditions which manufacturers sometimes regard as compelling the giving of advertising allowances are illustrated by threats of distributors to eliminate a manufacturer's goods unless such an allowance is given or by an offer to introduce his product only if an allowance is given.

Some additional light on the proportion of manufacturers who give allowances was obtained from wholesalers and corporate and voluntary chains. Of a group of wholesalers interviewed, no one of whom has voluntary chain connections, two stated that they receive no advertising allowances; one that about 10 per cent of the manufacturers offer them but that he accepts none; another that he receives them from a very small proportion of manufacturers. This last is the only one of the group who advertises anything except his own brands. Of three wholesalers, each one of whom has voluntary chain connections, one reported that 60 per cent of the manufacturers from whom he buys have offered him advertising allowances. One, *a wholesaler who advertises nothing but his own brands*, receives allowances from about 15 per cent of those from whom he buys. Another, also a wholesaler who advertises only his own brands, says "not many offer them voluntarily, although some do, and there are a good many willing to do so when they are asked or pressed for them." These phrases well indicate a view of advertising allowances as a trading tool and a buying technique.

Several corporate chain executives interviewed reported on the number of companies giving them advertising allowances. One of the largest stated that his company receives them from 65 per cent of the manufacturers from whom it purchases. He includes in the term "advertising allowances" price reductions called by that name as well as actual co-operative advertising arrangements.

Data gathered by the Federal Trade Commission show the amounts received as advertising allowances by two types of voluntary chain stores: retailer co-operatives and wholesaler-retailer co-operatives.[23] In 1929 average contributions of $2,733 were reported received by retailer co-operatives. This is a somewhat larger sum than that reported by 47 wholesaler-retailer organizations, which averaged $2,313. A comparison of the amount contributed by various manufacturers for advertising with the

[23] 72 Cong. 1 sess., S. doc. 12, pp. 125-26.

amount used by the co-operative for all of its advertising, based on the reports of a somewhat smaller number of organizations, indicates that about 56 per cent of the advertising expenses of retailer groups is paid by contributions of manufacturers. Only about 26 per cent of the wholesaler-retailer co-operative's advertising expenses are so paid. This great discrepancy arises because, on the average, the wholesaler-retailer groups, receiving smaller contributions from manufacturers, do about 65 per cent more advertising than do retailer groups.

A larger proportion of the retailer co-operative chains than of the wholesaler-retailer chains reported receiving contributions from manufacturers for either newspaper or bulletin advertising. The latter type, however, accounted for the larger proportion of the chains receiving contributions for advertising in other media.

III. ALLEGED PURPOSES

It would be expected, from the number of concerns which reported no definite plan for their advertising allowances and which use them opportunistically, that precise purposes would not be always easy to state. Manufacturers were asked, however, to indicate whether they use advertising allowances: to retain "good" customers; to introduce a new product; to meet unusual competition; to secure new customers; to secure large orders.[24] They were also asked to state purposes other than those listed.

Advertising allowances are more often given to strengthen relations with established customers than for any other single reason. This is not surprising. A considerable proportion of all advertising allowances are of the

[24] This list of possible purposes of advertising allowances was suggested by the committee of the Associated Grocery Manufacturers of America.

strictly co-operative type (see page 39), and these it might be expected would most often be developed with "good" customers. The distribution of replies of 31 manufacturers reporting on these five purposes is shown below:

To retain "good" customers	16	(52 per cent)
To introduce a new product	14	(45 per cent)
To meet unusual competition	12	(39 per cent)
To secure new customers	10	(32 per cent)
To secure large orders	9	(29 per cent)

In view of the extent to which deals and special prices are used to introduce new products,[25] it may be inferred that advertising allowances, said to be used for this purpose, are frequently examples of a loose application of the term to price cutting. On the other hand, it is arguable that it is when manufacturers are introducing a new product that they are most likely to develop a plan of promotion which will include co-operation with distributors.[26] No certain inference in either direction is justified. Giving advertising allowances for such purposes as to "secure large orders" and to "secure new customers" suggests more strongly than do the other causes listed that advertising allowances in these cases are only price cuts. It seems somewhat improbable that an advertising allowance given to secure a single large order will usually be made part of a carefully planned piece of co-operative promotion.

Four manufacturers reported that they use advertising allowances for all five of the purposes mentioned. Six

[25] A study of deals is being prepared for early publication.

[26] It has been held that vertical co-operative advertising may be used to advantage to introduce new products of a class to which this form of advertising does not lend itself at any other time. See Lockley, *Vertical Co-operative Advertising*, p. 242.

manufacturers, each of whom reported the use of advertising allowances, replied negatively to each one of the listed purposes and gave no others. Of these six, two indicated that they have definite plans for their allowances and described them in some detail; the other four indicated that they have no definite plans for making allowances.

Six grocery manufacturers gave, as bases for advertising allowances,[27] reasons other than those listed. These reasons included: "for advertising to consumer and to secure support from retailers"; "to secure consumer interest"; "We believe co-operative advertising to be good advertising for our products under certain conditions." All of these special reasons suggest that these manufacturers are giving thought to the matter, are combining the allowance with their other advertising programs, and are not making allowances merely as concealed price cuts.

IV. TRADE VIEWS

Trade journal views contrast sharply with trade practice and expression. Trade writers freely and feelingly refer to advertising allowances as secret deals, concessions, rebates, rackets, and trade cancers. One finds the opinions of manufacturers and their customers freely quoted as unfavorable to advertising allowances. It is only rarely that the press, which caters to sales executives, suggests a merit in the practice.[28]

More careful investigations than those usually represented by trade journal discussion, however, find the

[27] Three of these answered negatively to all of the five listed reasons and three affirmatively to from one to four of the listed reasons.

[28] Among the rare examples are W. F. L. Tuttle, "'Allowances' Are Not Uneconomic," *Advertising and Selling*, Apr. 1, 1931, Vol. XVI, p. 28, and Ernest I. Mitchell, "Chain Stores and Manufacturers Join Advertising Forces," *Printers' Ink*, Jan. 12, 1928, Vol. CXLII, pp. 77-89.

trade not wholly opposed to advertising allowances. Craig Davidson says, for example:

> Most voluntary chains have discovered the manufacturers' advertising allowances to be one way in which to save their own advertising money. They have been able to print special pages and get out big stunt sections in the newspapers with the money which they have hornswoggled out of manufacturers.[29]

It is difficult to believe that all of these chains have found the "hornswoggling" an objectionable process.

Lockley also concludes that "The specialized, exclusive, or selected retailer . . . will find the possibility of greater sales efficiency in such arrangements. . . ."[30]

A frequent objection on the part of distributors is based on the belief, or at least the fear, that they are not receiving as large allowances as are their competitors.

A study of voluntary chains reported: "Voluntary chains . . . quite uniformly have stressed their ability to secure special allowances from manufacturers as one of the reasons for retailers to join."[31]

An investigation of wholesalers shows that favorable and unfavorable opinion is about evenly divided. From 14 wholesalers answering the question, "Do you think it desirable as a general policy for grocery manufacturers to pay for advertising by customers?" replies were:

	Yes	No
As a method of securing more business....	8	6
As a method of securing new customers....	7	7
As a method of retaining old customers....	8	6

The same wholesalers were also asked to express their views on the necessity of this allowance under existing

[29] *Voluntary Chain Stores*, p. 167.
[30] *Vertical Co-operative Advertising*, p. 244.
[31] Pelz, *The Voluntary Chain*, American Institute of Food Distribution, 1930, p. 34.

competitive conditions. In view of the condemnation of the practice so common in the trade press, it is striking that every wholesaler who believes the practice necessary also believes it desirable. One wholesaler reported that he believes the policy desirable, even though not necessary under existing competitive conditions.

Five corporate chain-store companies—all large—reported on the desirability of advertising allowances.[32] In reply to the specific question, "Do you think it desirable as a general policy in the grocery industry for advertising allowances to be given to customers as a method of

securing large orders,
securing new customers,
retaining certain 'good' customers?"

the president of one company, although readily admitting that he was a frequent recipient of advertising allowances, took a strongly negative position on each question, asserting the belief that each concern should buy its goods on the basis of an open price list. It was his view that advertising allowance arrangements should be stated in price lists and if agreed upon with the distributor should be handled as any other business arrangement. Three other chain executives reported in favor of advertising allowances by manufacturers for one or all of the stipulated purposes. A fourth declined to take a position on the question.[33]

The expressed opinion of chain-store executives on the necessity of advertising allowances under existing conditions checks precisely with their expressed opinion

[32] Through extensive interviews in which a definite questionnaire was covered in each case.

[33] This concern is reputed in the trade to be among the largest recipients of the advertising allowance.

on desirability. In so far as this sample of grocery chain opinion (representing a small number of companies but a very considerable fraction of grocery chain-store business) is concerned, necessity and desirability are in harmony on the question of advertising allowances.

Every problem of advertising allowances is illustrated in the grocery industry, where such allowances are granted by approximately three-fourths of the manufacturers and a considerable proportion of the wholesalers. All of the forms already discussed in Chapter II are in use, and very significant sums are often involved. Arrangements vary greatly, somewhat less than one-third of the grocery manufacturers having standard plans. Standard plans themselves are of many types. Voluntary and corporate chains each receive advertising allowances from a considerably larger number of grocery manufacturers than does any other type of distributors. A survey of purposes showed that the retaining of "good" customers and the introduction of new products are more common than any other objectives. Although trade press articles condemn advertising allowances without great discrimination, both trade action and a considerable part of expressed trade opinion support them.

CHAPTER IV

ADVERTISING ALLOWANCES AMONG MANUFACTURERS GENERALLY

In considering advertising allowances, it is important to ascertain certain facts concerning their use among manufacturers generally. Is the advertising allowance a device used by certain classes of industries or by industries marketing in certain relationships or under certain conditions? Is it used for similar purposes by the various types of manufacturers who employ it? Are allowances received by the same class of buyers in all lines of trade? Are the methods of administering advertising allowances similar among various industries, and are the administrative and economic problems raised the same among them all? To secure information on these points an inquiry was made[1] through which reports on advertising allowances were secured from some 84 manufacturers, representing a very wide range of industries. The sample is shown in the tables on pages 54-59.

I. WHAT MANUFACTURERS GIVE ADVERTISING ALLOWANCES?

Advertising allowances are by no means a customary device of manufacturers generally. Of the 84 reporting manufacturers, only 23 (27 per cent), give them.[2] This figure indicates that allowances are used by considerably less than half as large a proportion of manufacturers gen-

[1] With the co-operation of the American Management Association, for which our thanks are due to Dr. W. J. Donald and the members of the Association who contributed data.

[2] It should be borne in mind that in sending the inquiry on this point there was no effort to select manufacturers who might be expected either to use or not to use advertising allowances.

erally as of manufacturers in certain industries.[3] This at once suggests that advertising allowances as a promotive scheme have much greater value in merchandising under certain circumstances than under others.

Three possibilities suggest themselves as worth considering to determine the circumstances under which advertising allowances are most useful or, at least, most common. These are the correlation of their use with different types of product, with different types of customers, and with the sale of branded merchandise. The first section of the table on pages 54-59 presents data furnished by manufacturers who use advertising allowances. The second gives similar information for other reporting companies. Both show the chief types of products each company manufactures and the chief types of buyers to which each sells[4] and indicate whether or not sales are chiefly of nationally advertised brands.

An examination of the first section of the table shows that advertising allowances are used for a wide variety of goods. They are applied in the sale of such diverse products as coffee, hosiery, rubber products, anthracite coal, oil burners, surgical dressings, and a miscellany of others. So varied are the articles in selling which advertising allowances are used that there seems to be no correlation between the product and the use of this form of promotion.[5]

If, however, we think of products not as articles but

[3] See, for example, pp. 30-34.

[4] For explanation of the term "types of buyers" see footnote on p. 40.

[5] Indeed, the variety of products in the sale of which advertising allowances play a part is even greater than an examination of the table reveals. Advertising allowances are known to be used also by at least some of the companies manufacturing the following products:

as general classes of goods, it may be seen at once that advertising allowances appear to be very seldom used in selling goods which go into further production use. But even to this there are important exceptions. Advertising allowances, for example, are given with the sale of mechanics' tools. It is significant to note, however, that such products as mechanics' tools are sold not directly to industrial users but rather to distributors.

In view of these facts it is altogether probable that the test of whether or not advertising allowances prove desirable lies not in the product strictly speaking but in one or both of the other factors mentioned; namely, the type

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Food, many varieties
Cosmetics
Mesh bags
Corsets
Children's clothes
Men's clothes
Shoes
Suit-cases
Trunks
Fishing tackle
Razor blades
Atomizers
Proprietary preparations
Shampoo preparations
Disinfectants
Pens and pencils
Building board
Cement
Roofing
Lumber
Mill supplies
Sheet metal
Brass
Plumbing equipment
Tools
Binoculars
Watches and clocks
Interior decorations (including electric lights)
Electric fans
Rugs
Furniture
Towels
Household lubricants
Household cleansers
Cooking utensils
Electric toasters
Gas ranges and other gas equipment
Vacuum cleaners
Washing machines
Amateur movie cameras
Pianos, radios, and phonographs
Vacuum tubes
Automobile trucks and tractors
Agricultural implements

See a number of articles appearing in *Printers' Ink*, Jan. 1, 1931 through July 28, 1932; *Printers' Ink Monthly*, November 1931, Vol. XXIII, pp. 38-39, June 1932, Vol. XXIV, p. 32, and July 1932, Vol. XXV, p. 61; *Sales Management*, Dec. 20, 1930, Vol. XXIV, p. 459, May 15, 1932, Vol. XXX, pp. 182-84, June 1, 1932, Vol. XXX, pp. 232-33, 255; *Sheet Metal Worker*, Aug. 7, 1931, Vol. XXII, pp. 464-66; *Class and Industrial Marketing*, March 1932, Vol. XXII, p. 46; *Printed Salesmanship*, June 1932, Vol. LIX, p. 294; L. C. Lockley, *Vertical Co-operative Advertising*, pp. 35-71.

CLASSIFICATION OF REPORTING MANUFACTURERS

I. Manufacturers Who Use Advertising Allowances

Type of Product	Chief Types of Customers	Chiefly Nationally Advertised Brands
Coffee	Distributors entirely: independent retailers chiefly	No
Surgical dressings, specialties, and sundries	Distributors 85 per cent: wholesalers chiefly	Yes
Hosiery	Distributors entirely: department stores 85 per cent, independent retailers 15 per cent	Yes
Hosiery	Distributors entirely: independent retailers and department stores	Yes
Variety of cotton and woolen cloths	Manufacturers 52 per cent Distributors 37 per cent: wholesalers chiefly	No
Men's suits and overcoats	Distributors 80 per cent: independent retailers chiefly Consumers 20 per cent	No
Maps, globes, etc.	Institutions 50 per cent Distributors 50 per cent: wholesalers	Yes
Paper and paper products, wood pulp, fiber conduit, etc.	Manufacturers 70 per cent Distributors 30 per cent: wholesalers	No
Envelopes	Distributors 75 per cent: wholesalers Manufacturers 25 per cent	No
Waxed paper	Manufacturers 65 per cent Distributors 35 per cent: wholesalers chiefly	No
Varnishes and enamels	Manufacturers 70 per cent Distributors 30 per cent: independent retailers	No
Tires and other rubber products	Distributors 57 per cent: independent retailers Manufacturers 43 per cent	Yes
Anthracite coal	Distributors 97 per cent: independent retailers almost entirely	Yes
Fuel oil burners	Consumers 93 per cent Distributors 7 per cent: independent retailers	Yes

I. Manufacturers Who Use Advertising Allowances (*Continued*)

Type of Product	Chief Types of Customers	Chiefly Nationally Advertised Brands
Fuel oil burners and universal joints for car, truck, and bus manufacturers	Distributors 90 per cent: independent retailers (for oil burners) Manufacturers entirely (for automotive products)	Yes
Fuel oil burners	Distributors 74 per cent: independent retailers Consumers 26 per cent	Yes
Electric and ice refrigerators	Distributors 88 per cent: wholesalers chiefly Manufacturers 12 per cent	Yes
Electric refrigerators	Distributors entirely: independent retailers chiefly	Yes
Electric wiring devices	Distributors entirely:wholesalers	Yes
Wire stitchers, fasteners, and staplers	Distributors Manufacturers (percentages not reported)	Yes
Valves, fittings, etc.	Distributors 90 per cent: wholesalers Manufacturers 10 per cent	Yes
Mechanics' tools	Distributors entirely: wholesalers chiefly	Yes
Industrial furnaces and gas furnaces for domestic heating (advertising allowances are used with sale of domestic heating furnaces only)	Manufacturers 70 per cent Distributors 30 per cent: independent retailers	No

II. Manufacturers Who Do Not Use Advertising Allowances

Type of Product	Chief Types of Customers	Chiefly Nationally Advertised Brands
Candy bars and peanut butter	Distributors entirely: wholesalers and chain stores	Yes
Surgical dressings, cotton, toilet articles, and drug sundries	Distributors 79 per cent: all types Institutions and government 14 per cent	Yes
Hosiery	Distributors 78 per cent: independent retailers chiefly Manufacturers 21 per cent	No
Hosiery	Distributors entirely: wholesalers 50 per cent, chain stores 40 per cent	No
Rayon knit and woven underwear	Distributors entirely: chain stores 40 per cent, mail order houses 25 per cent, department stores 25 per cent	No
Cotton ducks, drills, sheetings, etc.	Manufacturers 60 per cent Distributors 35 per cent: wholesalers chiefly	No
Woolens and worsteds	Manufacturers 56 per cent Distributors 44 per cent: chain stores chiefly	No
Work shoes and gloves and leather for same	Distributors 92 per cent: independent retailers chiefly	Yes (shoes) No (gloves)
Rubber and rubber-soled canvas footwear	Distributors entirely: independent retailers 70 per cent, chain stores 20 per cent	Yes
Scientific instruments for educational institutions and research laboratories	Institutions entirely	Yes
Tickets and tags	...	No
Tags, labels, and paper novelties	Distributors 53 per cent: independent retailers and wholesalers chiefly Manufacturers 44 per cent	No
Paper boxes and labels	Distributors 75 per cent: independent retailers chiefly Manufacturers 25 per cent	No
Waxed and coated paper	Manufacturers Distributors (percentages not reported)	No

II. Manufacturers Who Do Not Use Advertising Allowances (*Continued*)

Type of Product	Chief Types of Customers	Chiefly Nationally Advertised Brands
Writing and other types of paper	Distributors 90 per cent: wholesalers Manufacturers 10 per cent	Yes
Office equipment: typewriters, etc.,	Users of office supplies entirely	Yes
Office equipment and supplies	Users of office equipment 60 per cent Distributors 40 per cent: wholesalers	Yes
Price-marking devices, tags, and labels	Users of such equipment entirely	No
Cash registers, computing machines, etc.	Users of such equipment entirely	Yes
Bank vaults, safes, and locks	Users of such equipment 70 per cent Distributors 30 per cent: wholesalers chiefly	Yes
Cleaner and crack-filler for use by paint trade	Distributors 60 per cent: wholesalers	Yes
Plastic specialties, water proofings, enamels, varnishes, and paints	Manufacturers 75 per cent Institutions 15 per cent Distributors 10 per cent: wholesalers	No
Tires and other rubber products	Distributors 70 per cent: independent retailers chiefly Manufacturers 16 per cent	Yes
Petroleum products	...	No
Fuel oil burners	Distributors: independent retailers (percentages not reported)	Yes
Clocks	Distributors entirely: wholesalers chiefly	Yes
Linoleums	Distributors 96 per cent: wholesalers chiefly	Yes
Roofing tile	Users of roofing tile entirely	No
Disinfectants and germicides	Consumers chiefly (percentages not reported) Distributors sometimes	Yes
Brushes	Distributors entirely: wholesalers 75 per cent, chain stores 25 per cent	No
Rope and twine	Distributors 77 per cent: wholesalers chiefly Manufacturers 23 per cent	No

II. Manufacturers Who Do Not Use Advertising Allowances (*Continued*)

Type of Product	Chief Types of Customers	Chiefly Nationally Advertised Brands
Caskets and funeral supplies	Distributors 99 per cent: independent retailers	Yes
Printers	Users of printing entirely	No
Research and publications	Users of these services entirely	...
Electric signs and appliances (manufacturer and jobber)	Users of signs (customers of appliance business not reported)	No (signs) Yes (appliances)
Lighting specialties	Distributors 63 per cent: wholesalers chiefly Manufacturers 37 per cent	No
Wooden shipping containers	Manufacturers entirely	No
Fiber shipping boxes	Manufacturers 90 per cent Distributors 9 per cent: wholesalers chiefly	Yes
Lime and lime products	Distributors 80 per cent: chain stores chiefly Manufacturers 20 per cent	No
Stock and poultry feeds	Distributors entirely: independent retailers	No
Agricultural implements	Distributors entirely: independent retailers	Yes
Air compressors and pneumatic tools	Distributors 60 per cent: wholesalers chiefly	No
Saws, machine knives, etc.	Users 50 per cent Distributors 40 per cent: wholesalers Manufacturers 10 per cent	Yes (on own products)
Grinding wheels and abrasives	Manufacturers 80 per cent Distributors 20 per cent: wholesalers	Yes
Brass tubes, castings, fittings, and machine parts	Manufacturers 90 per cent Distributors 10 per cent: wholesalers	No
Special machinery designed and built for a specific purpose	Manufacturers entirely	No
Bolts, nuts, and cotters	Manufacturers 59 per cent Distributors 28 per cent: wholesalers Railroads 10 per cent	No

II. Manufacturers Who Do Not Use Advertising Allowances (*Continued*)

Type of Product	Chief Types of Customers	Chiefly Nationally Advertised Brands
Iron and steel rolls and castings and machinery	Manufacturers 98 per cent Government 2 per cent	...
Steel partitions, doors, etc.	General contractors 82 per cent Distributors 13 per cent: wholesalers chiefly	Yes
Fractional horse-power electric motors	Manufacturers 98 per cent Distributors 1 per cent: wholesalers	No
Fractional horse-power electric motors	Manufacturers 79 per cent Other users of such motors 13 per cent Distributors 8 per cent: wholesalers	No
Machinery for meat packing plants, and railway equipment	Users of such equipment entirely	No
Brass mill products, buttons, fasteners, etc.	Manufacturers 85 per cent Distributors 10 per cent	No
Waterworks, tools, and supplies	Government entirely	No
Lifting jacks and drop forgings	Railroads 45 per cent Distributors 40 per cent: wholesalers chiefly Manufacturers 10 per cent	Yes
Steel castings	Railroads 87 per cent Manufacturers 13 per cent	No
Gray iron and aluminum castings	Manufacturers entirely	No
Varied machinery, concrete mixers, castings, etc.	Manufacturers 65 per cent Distributors 35 per cent: wholesalers	No
Steam specialties, blow-off valves, gauges, etc.	Manufacturers 95 per cent Distributors 5 per cent: independent retailers	Yes
Industrial gears, couplings, and chain drives	Manufacturers Government Distributors: wholesalers and retailers Consumers (percentages not reported)	Yes (on half of business)
Electric power	Users of electric power entirely	No

of buyers and the use of brands. The table on pages 54-59 makes possible an analysis of the use of advertising allowances on both of these bases.

Types of buyers may be considered in two classes: distributors and "all others." The term "distributors" as here used includes wholesalers, independent retailers, chains, mail order houses, and department stores. The term "all others" as here used includes manufacturers, railroads, governments, institutions, contractors, users of supplies, and consumers. This division is suitable for our purpose, as the first class includes all of those who buy for resale, and the second class all those who buy for some form of use.[6]

A comparison of the use of the advertising allowance with types of customers indicates that it is primarily a device used in sales to distributors. Such allowances find practically no place in sales to manufacturers, railroads, governments, institutions, users of supplies, or consumers. Of 75 manufacturers whose reports could be used in this comparison there are 14 who make all of their sales to such customers. Not one of these companies uses advertising allowances. On the other hand, of the 61 who make some sales to distributors, 34 per cent use them. Manufacturers whose sales are half or more to distributors more often use advertising allowances than do those whose distributor sales are a smaller proportion of the total.[7]

[6] There is a sort of exception in the case of certain institutional buyers, such as hotels and hospitals, to the extent that their use involves a certain type of resale. In this case, however, the resale is so combined with other elements that it is more comparable with an industrial than a mercantile vending.

[7] Of 14 manufacturers who sell entirely to distributors, 6 (43 per cent) use advertising allowances, and 8 (57 per cent) do not; of 23 manufacturers whose sales are 50 to 100 per cent to distributors, 9 (39 per cent) use advertising allowances and 14 (61 per cent) do not; of 24

Since some of the manufacturers who use these allowances sell to both distributors and non-distributors, it is apparent that a manufacturer may give them to both types of purchasers. But there were no direct statements that this is true. There are reasons to believe that manufacturers do not under any circumstances give advertising allowances to any except their distributor customers. In stating to which customers such allowances are given most often, distributors were always mentioned even though sales to distributors were often a very small proportion of the total. Also, a few companies definitely stated that advertising allowances are given only to distributors.

Assuming that advertising allowances are practically, if not absolutely, always given to distributors, there is still the question: Do manufacturers selling to certain types of distributors use advertising allowances more often than do those selling to other types of distributors?

Manufacturers who sell directly to independent retailers or to department stores are more often the ones to use advertising allowances than are those who sell to other distributors. This is clearly indicated by the following table:[8]

Of 42 manufacturers who sell direct to independent retailers,
16 (38 per cent) use advertising allowances;
26 (62 per cent) do not use advertising allowances.

manufacturers less than 50 per cent of whose sales are to distributors, 6 (25 per cent) use advertising allowances and 18 (75 per cent) do not.

[8] The table ignores the possibility that manufacturers who sell to independent retailers or department stores may, usually, sell a very large proportion of their goods to such distributors while manufacturers who make a large proportion of sales to non-distributors may be more likely to have some business with wholesalers, chains, or mail order houses. However, a careful scrutiny of the proportion of sales made to each type of distributor by each company which does and by each company which does not use advertising allowances indicates that the two conditions are quite independent.

Of 18 manufacturers who sell direct to department stores,
6 (33 per cent) use advertising allowances;
12 (67 per cent) do not use advertising allowances.

Of 49 manufacturers who sell to wholesalers,
14 (29 per cent) use advertising allowances;
35 (71 per cent) do not use advertising allowances.

Of 13 manufacturers who sell to mail order houses,
3 (23 per cent) use advertising allowances;
10 (77 per cent) do not use advertising allowances.

Of 24 manufacturers who sell to chains,
5 (21 per cent) use advertising allowances;
19 (79 per cent) do not use advertising allowances.

More than half the manufacturers who give advertising allowances either sell to only one type of distributor or give allowances equally to all those to which they do sell. Those who give advertising allowances unequally to various distributors give them most frequently to independent retailers.[9] It appears certain, therefore, that while department stores rank high, independent retailers are the most frequent recipients of advertising allowances from manufacturers generally. (Contrast with the grocery industry, pages 40-45.)

There is reason to believe that advertising allowances are particularly associated with the selling of branded merchandise. Of the 23 companies using advertising allowances, 15 (65 per cent) do their business chiefly in advertised brands. The remaining 8 companies which use advertising allowances indicated in many cases that they do some business in advertised brands, although not a major fraction. Companies were not asked specifically to

[9] Even when selling through wholesalers it is not unusual for them to provide dealer helps for retailers which their wholesale customers distribute to the retailers. H. E. Masback, "How to Cut Dealer-Helps Waste through Jobbers," *Printers' Ink*, Feb. 25, 1932, Vol. CLVIII, pp. 97-98.

report on whether they ever use advertising allowances with unbranded merchandise, and so it is impossible to say that this combination never exists.

On the other hand, the use of brands by no means compels the use of advertising allowances. There are 41 companies which reported that their business is chiefly in branded merchandise;[10] of these 26 (63 per cent) do not use advertising allowances.

II. METHODS EMPLOYED

The plans of payment for allowances of manufacturers generally are considerably more standardized than those of grocery manufacturers. (See pages 34-40.) At least this is the clear evidence in the reports collected. Put in reverse form, grocery manufacturers use their advertising allowance as a trading or bargaining activity more often than do manufacturers generally. Definite plans applied in using advertising allowances were reported by 72 per cent of the latter.

Computation on the basis of space used is by far the most common method of determining the amount to be paid. Three companies so computing occasionally employed one of the other methods. The various methods of measuring were reported as follows:

68 per cent sometimes pay for space used or other costs actually incurred;

36 per cent sometimes pay an allowance per unit of product sold;

27 per cent sometimes pay a flat amount.

Some features of plans reported are:

Half of the companies reporting will meet their customers' expense for advertising "50-50." Four of these specify newspaper

[10] A company reporting part of its business to be chiefly in nationally advertised brands was counted the same as one so reporting for all of its business.

advertising, two specify local advertising, and three do not specify kind of advertising to be included.

Almost half of the companies furnish circulars or other advertising literature to be distributed by their customers.

A few companies do direct mail advertising for their customers or furnish the material for such advertising if the customer will bear the cost of postage.

A few companies mentioned furnishing cuts, display materials, etc. to their customers.

A few companies allow customers a given percentage (usually 3 per cent) for advertising without specifying for what kind of advertising it shall be used.

One-third of the reporting companies, specifying the type of advertising in which they will co-operate with their customers, also fix a limit of the amount which they will spend for such co-operation. Most often this limit is 5 per cent of customers' purchases. It is, however, in some cases reported to be as low as 2 per cent and as high as 6 per cent.

III. ALLEGED PURPOSES

Manufacturers generally utilize advertising allowances to introduce new products more often than for any other purpose. In reply to specific inquiries as to the use of advertising allowances for this and other purposes, twelve replies were as follows:

To introduce a new product...	8	(67 per cent)
To retain "good" customers...	5	(42 per cent)
To meet unusual competition..	5	(42 per cent)
To secure a new customer....	4	(33 per cent)
To secure large orders.......	3	(25 per cent)

In contrast to the grocery manufacturers' practice of (see pages 45-47) giving advertising allowances to retain "good" customers, manufacturers generally are much more likely to give them to introduce new products.

Manufacturers generally use advertising allowances to secure large orders even less often than do grocery manufacturers, though it is uncommon for either group.

Manufacturers mentioned a number of purposes for advertising allowances other than those on which replies are listed above. One stated that he gives allowances to "share expense of space given us in wholesaler's catalogue." The allowance was reported to be paid as a flat amount. Another uses them "to maintain dealer sponsorship" (apparently the same general purpose as "pushing"). A third uses them "to popularize our product in the territory." In this case the advertising allowance is evidently regarded as the most economical method of local advertising. A fourth uses them "to keep advertising expenditures uniform," evidently finding in advertising allowances a method of exercising some control over the advertising expenditures of his agents. A fifth cites economy in local advertising as an end to be achieved. A sixth finds "the publicity and favorable attitude of the trade" the chief ends served.

Those manufacturers who reported not using advertising allowances were not asked why they did not use them. A few companies, however, contributed observations on the point, and several of these may be worth presenting. A linoleum manufacturer stated: "We believe in controlling all of our advertising. Advertising allowances in most cases are nothing but price concessions and inaccurately connected with advertising *per se*." A manufacturer of waxed and coated paper indicated that he does not grant allowances because they are not used in the sale of these products. (Another manufacturer of waxed paper, however, reported the use of allowances.) A manufacturer of industrial gears, couplings, chain drives, and the like finds advertising allowances not to fit in with his program, which controls "all advertising from the head office and which undertakes to distribute advertising in a way which will give equitable support to all distributors." A maker of fuel oil burners declines to give advertising allowances on the ground that: "We have deducted a normal advertising allowance from the net unit price of our product and encourage dealers to utilize this allowance for advertising which will tie in with their individual business methods." (Three other oil-burner manufacturers utilize advertising allowances.) A maker of electric motors replies merely: "We have been asked to but do not believe in it," without giving specific reasons for this disbelief.

Advertising allowances are by no means in universal use among manufacturers generally. Slightly less than a third employ them. They are almost never used by those who sell production goods direct to industrial users. They are a device employed chiefly when selling to distributors and have, apparently, added advantages for those whose goods are branded. Independent retailers are the most frequent recipients of advertising allowances from manufacturers generally. The purpose most commonly reported is the introduction of a new product. Standard plans are used in nearly three-quarters of the cases studied.

CHAPTER V

MANAGERIAL AND ECONOMIC ASPECTS: IDENTITIES AND CONFLICTS OF INTEREST

The variety of interest in advertising allowances gives rise to many points of view concerning them. While manufacturers feel that they have in general a common outlook and a common interest in allowances, they are in competition in granting them. The distributor's view may be distinguished from that of a manufacturer; but among distributors there are the various attitudes of the wholesaler, the chain, and the retailer. As among themselves and as against each type of distributor, wholesalers, chains, and retailers are aware of conflicting opinions. The consumer as well has an interest in the effects of advertising allowances. Through every question involved there runs likewise both a managerial viewpoint and a more general one, which may be called on economic outlook. In each question there are points on which there is identity of interest among some of those concerned. In each question there are points on which there is conflict.

In considering either the managerial or economic aspects of advertising allowances, it is desirable to have in mind just what is meant in each case. The terms, as we have seen, may be variously used. An advertising allowance may be given for an unspecified service or for one so vaguely stated that the agreement to render it is not regarded seriously. Such advertising allowances are price cuts misnamed. An advertising allowance may be given for definitely specified services such as window displays, pushing by salesmen, or agreement to place a certain number of lines in a specified local newspaper. The performance of the specified services may be auditable; that is, it may be possible and practicable to determine whether or not performance is rendered. For example, the placing of a certain number of lines of newspaper advertising or of a certain number of window displays may practicably be checked. The specified performance may, on the other hand, not be auditable; that is, it may not be possible or practicable to determine whether the service is given. An example of this situation is the case where the performance promised is pushing by salesmen. No amount of observation can determine whether salesmen are actually giving the kind and degree of promotion which either the manufacturer or his customer had in mind, unless the agreement was that the salesmen should use some piece of formal phraseology upon certain specified occasions.[1]

In discussing the managerial and economic aspects of advertising allowances, let us consider first those which are a part of an actual and definitely specified co-operative arrangement, the performance of which is auditable, or at least expected.

Advertising allowances which are payments for definitely specified services (performance of which is expected whether or not auditable) are a more effective means of promotion under some circumstances than others. Significant sets of circumstances are: (1) The type of distribution of the product under consideration, that

[1] It is true that to some degree results can be checked. That is, a manufacturer may find that after a chain buyer has agreed that the product shall be "pushed" in all of his stores an increase of sales is noted. But this is not a demonstration that pushing has been followed to the extent expected. Had it been, the increase in sales might have been much greater.

is, by exclusive agency, restricted distribution, or general distribution; (2) the regular advertising practices of the dealers concerned when they do not receive allowances; (3) the special terms of the agreement concerning the allowance.

Considering the first set of circumstances, that is, the type of distribution, it will at once be agreed that some form of advertising which carries both the name of the manufacturer's product and the name of the dealer is much more important if the product goes through exclusive agencies than if it is marketed through all possible appropriate outlets. Even if an exclusive agency is used, there is, however, no *necessity* that the advertising be done co-operatively. It is, no doubt, equally effective when done independently, either by the dealer or by the manufacturer. While perhaps always better if done locally, it is often done nationally, as by manufacturers who, in their magazine advertising, list the names and locations of their representatives. If done locally, the essential question is merely whether it can be done better or more cheaply by co-operative arrangements.

In weighing the advisability of allowances, the advertising practice of dealers when they do not receive them is a next consideration. Certain dealers have come to believe that local advertising at their own expense of a manufacturer's advertised brand is not only desirable but essential. If the dealer to whom a manufacturer proposes to give an allowance already advertises this manufacturer's brand, the allowance to be considered effective by the manufacturer would have to persuade the dealer to increase his advertising of the brand. If dealers do not on their own account do any local advertising or do not in such advertising make any mention of the manufacturer's brand, encouragement through allowances by the manufacturer would appear to be a gain for the manufacturer to the extent of the dealer's contribution to the co-operative endeavor. It is clear from the foregoing that it would be possible for a co-operative arrangement to be a perfectly definite agreement with the dealer to do specific advertising of a seller's brand and to be perfectly carried out without in the least changing the dealer's advertising from what it would have been if the allowance had not been given.

Many manufacturers will, no doubt, feel that while these conclusions are valid and while manufacturers' brands perhaps gain no new local promotion from certain advertising allowances, such allowances are necessary to hold the position of their brands against those of competitors. Some manufacturers, either voluntarily or through buyers' pressure, give allowances. Therefore, their competitors must give them. The issue thus becomes one of competitive promotion. In such a struggle advantage may be expected eventually to rest with that manufacturer who, equalling his competitor in promotive activity, offers the better combination of quality and price. The dealer typically can best afford to push those goods which will on other grounds as well as advertising allowances give him most profit over a considerable time. This means those goods which continue to sell rapidly because of consumer preference (for whatever reason such preference may exist), or those on which he can make the best margin, or both. Where a manufacturer, therefore, contemplates purely competitive advertising allowances, he should very carefully consider the relative advantages of additional independent advertising or of a price reduction. If his goods are in quality equal to those of his competitors and are already well known by his own advertising, there is a strong probability that a price reduction will yield him the greater gain. The dealer will hardly overlook the opportunity of pushing the product which he is buying on an attractive basis. If the consumer stands to gain more by one method than another, the probability of such gain appears to be greatest in that arrangement which gives the dealer the lowest cost. To the extent that an allowance is a payment for definite expenses for services which are required of the distributor, the substitute of an equivalent amount as a price cut would leave the distributor free to spend it for similar services or to reduce the price to the consumer.

The third set of circumstances which are important in weighing the wisdom of advertising allowances consists of terms of the agreement. A first question is whether the plan and execution of co-operative advertising are to be in the hands of the manufacturer or the distributor. It is sometimes contended that the manufacturer is always better able to carry on these tasks and that if any part of them is left to the distributor, the manufacurer will not get his money's worth. While it is possible that this is true in a majority of cases, the matter cannot be disposed of in a general statement. Truth can only be ascertained by an examination of each case. It is certainly not true if one includes those instances in which the dealer can secure a more advantageous local advertising rate than can the manufacturer. It is also certain that the merchant can contribute services, such as display and pushing, which the manufacturer cannot furnish for himself at any cost.

Since advertising allowances for unspecified services are only price cuts, the arguments for and against them are the same as for any price cuts. This is true whether the service is wholly unspecified or so vaguely stated that the arrangement is not taken seriously. Advertising allowances used as price cuts, like other forms of price cutting, tend to center power to state the final price in each sale in some official other than the regular salesman. Knowledge of the fact that his superior, by an advertising allowance, may undercut the price which he is authorized to offer, and knowledge of this fact on the part of the prospective buyer, enervates the salesman, and general demoralization of the sales force may result.

But this possibility of a demoralization of the sales force leads to a more fundamental matter. It suggests that selling efforts of the sales force may be largely unnecessary where advertising allowances are frequently given and where the power to give them is lodged only in the hands of an executive superior to the sales force—especially where this fact is generally known or suspected by buyers. Under such conditions salesmen may be useful in showing samples and in gathering information on which price-making and other decisions are based, but they can be expected to close deals only with "easy" or uninformed buyers. In so far, therefore, as advertising allowances as price cuts are known to be made "over the salesman's head" by a given seller, that seller has reasons for considering whether he is not using the salesman for purposes that are administratively and socially wasteful.

Since advertising allowances given in reality as price cuts are probably always at the moment justified with the view that they are special prices given for such reasons as to move excess stocks, to meet unusual competition, to introduce new products, and to secure new customers, they may be subjected to the same sort of analysis as that applied to special prices. Indeed, if they are long continued or if they become considerable in amount, they more or less quickly come to be accepted by both buyer and seller as special prices. It is even probable that under such circumstances they will presently be called special prices rather than advertising allowances. In view of these facts it is pertinent to consider here briefly the business and economic effects of special pricing.

When special prices are made to move excess stocks they are usually regarded as a method of correcting an error in judgment. As such they become really important only in times of business decline, or depression, or when style changes have come more quickly than was anticipated. In times of depression special prices on materials and merchandise may become so general that they constitute a general price debacle.

Special prices to meet unusual competition for goods which have a fairly steady price are admittedly fighting weapons. All drops in price must appear to some competitors to be special prices to meet unusual competition. It follows that what appear at first as special cases only may turn out to be the beginning of a process of a competitive price readjustment which may go very far. Out of such special cases may develop a price war which may cause a number of competitors to carry prices far below costs. If the first special prices are related to lowered costs or a determined effort to expand output, the war does not stop until new low levels are reached. It becomes a part of the process by which prices are worked closer to the cost of production of marginal producers than was formerly the case.

Every manufacturer, therefore, who makes a "special price" to meet "unusual competition" should be aware that he may be confronted with what is now to be his "usual competition." From an administrative point of view he would be greatly helped if he knew the cause of the unusual competition. It is often far better for him to permit his competitor to dispose of a small excess than to open a price battle. If, on the other hand, his competitor's low prices are to be regular, it may be far better for him to fight before the competitor becomes entrenched. As has been suggested above, special prices may lead to price wars and "permanent" price readjustments. It is in price wars that there occur some of the pricing practices most discussed and by some most abhorred.

Managerially, special prices to introduce new products are usually explained (and defended) on the grounds that unusual methods are necessary for this work and that such prices are more economical than specialty salesmen, extreme advertising pressure, or other alternative possibilities. But from an economic point of view there are other aspects of special prices to introduce new products which call for attention. This fact requires a brief consideration of the manufacturer's function in our economic society.

In an economic system such as ours, which permits the individual to manufacture whatever he desires (subject, of course, to certain legal limitations), the manufacturer performs two functions which need to be carefully distinguished. He makes those products which are already recognized as being among the accepted commodities which constitute the available supply from which customers may choose. He also takes responsibility for introducing inventions. While suggestions, ideas, and completely devised products may be brought to him, he plays a central role in determining what new things will be offered to the world.[2] The manufacturer is, no doubt, often mistaken in his decisions. He probably rejects many suggestions which would be both profitable and socially desirable. Undoubtedly he makes affirmative decisions resulting in the production of articles which are unjustified from the standpoint of profits and which, judged by certain standards, are illth rather than wealth. Although society by statutes and legal decisions makes prohibitions and regulations, using the types of judgment possible to legislators and courts, the votes of consumers or other purchasers far more commonly determine whether what the manufacturer proffers is bad or good, useless or useful, antiquated or in vogue, too costly or desirably priced. The market votes of certain consumers, not strangely, seem as unwise—at times even as vicious—to other consumers as the political ballots of some voters at times appear to other voters. In both instances the voters are subjected to similar types of propaganda, advertising and political utterances, both self-interested—the former admittedly so.

The manufacturer who offers a new article or a modification of an old one to prospective buyers offers them a new opportunity. This is true whether the buyers are consumers or manufacturers. The new opportunity, as has been suggested above, may not always mean a real advantage, but it does always mean another option, a wider freedom of choice.[3] Even the merchant has a new opportunity of making profits in buying and selling.

[2] The financier, the promoter, the merchant, and the consumer are by no means without influence in the making of these decisions.

[3] Obviously, the choice may not remain a possibility forever. The indicated preference of buyers for the new or the old may cause one or the

Nothing is more obvious than the fact that new commodities or modifications of old ones cannot be offered to buyers without considerable expense. Indeed, the "new choice" is usually urged upon possible buyers through advertising and salesmen. While it is popular at the moment to castigate advertising and the promotive activities of salesmen, using the same fulsome phrases, emotional appeals, and tendency to exaggeration which they themselves often employ, these activities may fairly, in a world of individual enterprise, be regarded only as among the necessary costs of those forms of "progress" which a system of individual enterprise brings.[4]

But the costs of the advertising page and the expense of the salesman may be, and for the more substantial types of goods are, only a very inconsiderable part of the preliminary outlay necessary in putting a new option before buyers. While examples involving little initial cost might be cited, in many instances extensive experimentation and the construction of a plant and equipment are part of the costs of introducing a new product. While sending out salesmen and advertising are technically spoken of as promotion costs, they are in reality no

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other to disappear from the market. Moreover, there is never a new choice where a manufacturer of a patented article or of a certain type of article—such as an automobile—makes a change in model, unless the old type is still provided. In such cases the modification is a substitution rather than a new choice.

[4] These observations are not intended either as a defense or as a condemnation of modern selling methods. A proper attack on such methods is by way of the legislature, where appeals may be made on any sort of moral grounds as well as in terms of economic argument. There is a good deal of presumption in much of the "preaching" that is done concerning the alleged extravagance of modern selling methods. The seller typically utilizes these methods after no little consideration of their costs in comparison with the costs of other methods. If his decision that these methods are the most economical that he can employ is correct, only a moral question remains.

more promotional than are the other preliminary expenses.

Special prices used to introduce a new product fit into this analysis of the costs of freedom to experiment. When a manufacturer has been to a large expense to devise and make a new product, he may feel that the added cost of a discount introductory price is insignificant, even though such a price should be well below cost.[5]

Whatever advantages the business executive may believe to exist in calling price concessions by the misleading term "advertising allowances," there can be no economic justification for so calling them. True, it is conceivable that sales strategy may find justification for this misrepresentative use of the word. But the confusion and lack of clear thinking which come from using terms in a misleading sense justify condemnation from an objective viewpoint. The merit which such usage has "in saving face" is offset from the point of view of general clarity of thought.

A direct objection to advertising allowances in any form arises from the fact that they confuse two processes desirably kept separate. Advertising allowances are used as part of the price-making process. In so far as they are to any degree allowances for promotion service they are in reality costs. Confusion is necessarily a frequent sequence of treating them as part of price arrangements. It is possible indeed that co-operative advertising arrangements entered into at the time of sale may involve the manufacturer in an expense which he had not anticipated in computing selling price, and it may follow that his price should be higher because of the allowance

[5] It is doubtful whether the term "cost" can have a very definite meaning on an article at this stage, as cost per unit varies so closely with the number of units produced.

rather than lower. A reduction in the form of an advertising allowance is only justified if the co-operative arrangement calls for an assumption, by the purchaser, of expenses in which the seller would otherwise have been involved, or the assumption of promotion which the seller could not otherwise obtain.

From the point of view both of accurate accounting and of economy, the chances are decidedly better that the manufacturer or other giver of allowances will secure a basis of sound judgment if allowances are regarded as costs, and if plans and the execution of them are committed to the same hands (perhaps his advertising department or an advertising agency) as those which make other advertising arrangements rather than to the impulses of salesmen or sales executives in the heat of a selling situation.

There is no more serious aspect of advertising allowances than the fact that they are often secret. Secrecy has been widely and fervently condemned, but it has not been discontinued.[6] Unfortunately, perhaps, there are arguments both for and against it. It has, under some circumstances, definite managerial advantages.

Managerially, secrecy may be valuable in preserving a monopoly on good sales strategy. A manufacturer or distributor may believe this is particularly true when

[6] While there is obviously no means of measurement, the number of cases of secret allowances is, if one may believe trade gossip, growing rapidly. The mimeographed statement issued by the Federal Trade Commission, Mar. 14, 1932, reporting resolutions adopted by a trade practice conference for the grocery industry, Oct. 24, 1928, as changed by the Commission, declares secret allowances of every sort to be "unfair trade practices" when they are employed with the intent and effect of injuring competitors. Earlier rules included the phrase: "Secret rebates or secret concessions or secret allowances of any kind are unfair methods of business." *Trade Practice Conferences,* Federal Trade Commission, July 1, 1929, p. 178.

granting advertising allowances for carefully planned services, the performance of which is critically checked. He may have ingenious ways of co-operating with his customers which he counts a trade asset; he may know, on the basis of objective evidence, that advertising co-operation with some customers is profitable and with others unprofitable. In the first instance, he may believe that secrecy will keep others from investigating his methods; in the second instance, he may believe that secrecy will bring less ill-will from customers with whom he does not co-operate than will his best efforts to explain the true situation.

Again, if the advertising allowance is a price cut and nothing more, the giver of the allowance may believe, and may believe rightly, that secrecy is the best policy. The decision on secrecy, managerially speaking, is, under existing economic arrangements, always a matter of policy rather than of ethics which can be measured by any satisfactory objective standard.

An economic argument, or at least an argument that it sometimes aids the consumer, may also be made for secrecy. There is little doubt that in the field of branded merchandise it causes competition to operate more promptly in lowering prices than would be the case if it did not exist. A manufacturer distributing through both wholesalers and chains, for example, may believe it advisable to give advertising allowances—based on service or merely on price cuts—to chains or to wholesalers. Or, he may believe it advantageous to give allowances to some chains or wholesalers but not to all. The portion of his distribution to those to whom he does not believe it profitable to grant allowances may be so large that he is fearful of doing this openly, and so does it secretly. If the resulting lower prices are in any degree transmitted to the consumer, the latter, at least, has an advantage.

But a primary difficulty with secrecy is the difficulty of keeping it secret. Obviously the "outsiders" only know of the secrets that are discovered, but not a few manufacturers and distributors state that so surely does unusual but unannounced and unexplained dealer promotion lead to investigation and so frequently are secrets disclosed that notions of managerial advantages of secrecy may be largely discounted. These persons aver that once a manufacturer adopts a policy of secret allowances it will be impossible for him long to avoid giving equal concessions to other distributors equally well situated or to other distributors who buy in comparable quantities or who can offer comparable co-operation. Since the actual gains through secret allowances are, necessarily, known only to those to whom they are secret, each of these must draw his own conclusions concerning them.

Strong economic and social objections to secrecy exist, however. It invariably breeds mistrust, suspicion, and bad feeling. These are in themselves illth. Moreover, there comes a wide belief that prices are discriminatory. Although in part this grows from the knowledge that secret prices exist, it grows also from disclosures or discoveries of the fact of differential allowances.[7] The knowledge of discrimination forces purchasers to a "hard trading basis." The buying and selling process becomes

[7] Such information comes to light through conversations, the movement of salesmen from one company and one phase of the industry to another, and, during the past few years particularly, through mergers and the formation of voluntary chains which have made available to many in the trade the prices which their former competitors were paying or receiving.

higgling rather than taking or declining an offered price. Such buying and selling makes exorbitant demands upon time compared with a system where prices are open and known. There is enormous loss involved in the time required in investigating, bargaining, and dickering in the hope of making the best possible purchases. Business men have devised few if any social institutions more economical of time and effort than open competitive markets; there are few situations more time consuming and costly than those in which each commercial relationship must be one of personal and individual bargaining. Secrecy is the antithesis of an open market. Secret arrangements necessarily involve individual bargaining. From the standpoint of economy of social operations at any given time, therefore, secret advertising allowances may be condemned.

Under a rule of operation under which advertising allowances are payments for possible, practicable, specified, and auditable services, good management and sound economics are identified in interest. Economics has no more valid principle than that legitimate services shall be carried on in the most economical way known. An advertising allowance plan, therefore, which enables the manufacturer to determine the relationship between performance and expense is as economically sound as any act based on business judgment can be.

If a manufacturer can give advertising allowances for anything other than services bought at the lowest possible price without an increase in volume of sales which would give compensating reduction in unit cost, his "regular" price is higher than need be.[8] If he does give them under these circumstances it is evidence of his be-

[8] That is, to cover costs.

lief that his "regular" price is higher than he believes to be wise in the existing situation. The advertising allowance, therefore, on a branded article, in so far as it is not a payment for specific and auditable services, is a reduction of the monopoly element in the price. *It is by such devious means that competition often effects price reduction in the semi-monopolistic field of branded merchandise.*

CHAPTER VI

TRADE PRACTICE RULES AND ADVERTISING ALLOWANCES

In view of the fact that advertising allowances have constituted one of the trying problems with which a number of important industries have attempted to deal in their efforts toward self-regulation, it is relevant to conclude this study with some consideration of those efforts and with certain suggestions for rules relating to advertising allowances. As the trade practice conferences held under the auspices of the Federal Trade Commission have furnished the chief formal method for industry's self-regulation, it is desirable to see something of the background, the philosophy, and the procedure of these conferences.

I. THE RISE OF THE TRADE PRACTICE CONFERENCE

The Federal Trade Commission Act of 1914 was passed during a period in which there was much talk of unfair methods of competition. Discussion was general, but definition was vague. In Congress there was never a common understanding of what the phrase meant. Some persons, including some very high officials, were of the view, it is certain, that many forms of competition which were not defined as unfair by common law were unfair; and they must have hoped that the Federal Trade Commission would extend the area of regulation as between competitors.[1] It was in the period prior to the

[1] This view was also the view of the Commission, as was clearly expressed in the *Annual Report of the Federal Trade Commission*, 1919, p. 45, in these words: "Previous to the creation of the Commission the courts had ruled upon various forms of unfair practices. Their decisions are designated as cases arising under the common law. But upon the

judicial interpretation of the Federal Trade Commission authority, when the definition of unfair competition was "seemingly a Commission function," that the trade practice conference originated.[2]

The conference, at first called a trade practice submittal, was initiated by the Commission in 1919, (1) as an effort to eliminate by consent those practices of an industry which, in the opinion of the industry, were unfair, and (2) as a means of securing from an industry the data upon which statements of what is unfair competition in that industry could be made in issuing orders or in proceedings before the courts.[3] Under this philosophy the Federal Trade Commission undertook to develop and extend the regulation of trade practices in terms of such concepts of policy as were developed within the industry itself. Except in proceedings initiated by the Department of Justice, "the Commission assumed control of the Rule of Reason in the interpretation of the anti-trust laws as they applied to trade agreements."[4]

The anticipations of those who believed that the Commission would become the agency of a broader interpretation of the law of competition, based on industry's own concepts, were not realized. Whether their anticipations might have been realized by a procedure differ-

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creation of the Commission it was empowered to leave the shores defined by the common law and, taking the knowledge of those decisions with it, to embark on an uncharted sea, using common sense plus the common law for its compass."

[2] Nelson B. Gaskill, *Price Control in the Public Interest*, p. 88.

[3] *Annual Report of the Federal Trade Commission*, 1920, p. 43. "The Commission," says Gaskill, "proposed to use these expressions as the foundation of its own definitions." *Price Control in the Public Interest*, p. 90.

[4] The same.

ent from that actually taken by the Commission is here beside the point. As a matter of fact, the Supreme Court made it clear that definition of unfair methods of competition was to remain a judicial rather than a Commission function and continued to restrict the regulation of competition very largely to the terms of the common law.[5]

The effort toward industrial self-regulation through the Commission was eventually modified into the form of the trade practice conference, in which industry, as in the submittal, formulates its own views concerning what are unfair methods of competition. The question of the legal character of the rules expressing these views has led to the question of enforcement. Consequently the conclusions reached in the conferences have come to be classified according to legal enforceability. In Group I are placed the rules covering those practices which are condemned by the trade and which already are clearly under legal condemnation. These rules appear to constitute nothing but agreements that actions already declared illegal are unfair actions. Rules in Group II are expressions of the trade which go beyond the expressions of the law as to what are unfair practices. If any of these

[5] In *Federal Trade Commission* v. *Gratz et al* the Court said: "The words 'unfair method of competition' are not defined by the statute, and their exact meaning is in dispute. It is for the courts, not the Commission, ultimately to determine as matter of law what they include. They are clearly inapplicable to practices never heretofore regarded as opposed to good morals because characterized by deception, bad faith, fraud, or oppression, or as against public policy because of their dangerous tendency unduly to hinder competition or create monopoly." 253 U.S. 421.

A very interesting interpretation of a different point of view concerning the proper powers of the Commission is to be found in Mr. Justice Brandeis' dissent in this case.

rules can be enforced by the Commission or the courts, it appears that they are in this group by mischance, that they should have been put in Group I. Nor has industry legal authority to enforce these Group II rules, for there is no recognized legal machinery for such enforcement. While it might easily be assumed that the agreements of which rules in Group II consist are lawful agreements, since they are "accepted" by the Commission, it is doubtful if these rules create any legal presumption binding upon the Department of Justice or the courts.

It would be to no more purpose here to consider the desirability or undesirability of the Commission's procedure in the grouping of its rules than to consider the desirability or undesirability of the court's action. It is significant, however, to see clearly that as the rules of Group II now stand, they are simply expressions of an industry's own code, statements of what the industry believes to be desirable limitations upon the actions of all its individual members. In this it represents an extension of the philosophy of unfair competition beyond any upon which the courts have made definite pronouncements. It is, however, a definite effort toward self-regulation and in this is comparable to the origins of the merchant law.

II. SUGGESTIONS FOR INDUSTRY'S SELF-REGULATION

In drawing up rules for its own regulation (whether they be Group II rules made in a trade practice conference or rules made through some other procedure) an industry will, in the writer's opinion, be well advised to avoid so far as possible the legalistic conceptions and legalistic statements of existing law.[6] A first and obvious

[6] Trade practice conference Group I rules, while originating in a trade conference, are necessarily cast by the Commission in all the legal qualifications and limitations and clothed in all the legal verbiage requisite to enforcement through the courts.

reason is that purely legalistic concepts of unfair practices are covered by the law and therefore need no further statement.

A second difficulty confronting trade groups, if their approach is through conventional legalistic philosophy and legalistic statement, is that they cannot with existing machinery (and probably cannot with any other machinery which they may construct) determine when violations of rules, so conceived and so stated, have actually occurred. It is, for example, beyond the bounds of reason to expect a trade group to determine *intent*. Intent is a very necessary concept at law and one which legal machinery can go far toward interpreting, but not so a trade practice committee. The determination of intent requires a careful gathering of all the surrounding and circumstantial evidence and can never, unless by willing and voluntary admission, be absolutely known. While a conclusion beyond reasonable doubt may be drawn, a decision on the basis of such conclusion will hardly be accepted unless supported by the strength of a court decision. A trade practice conference committee has no such power.[7]

The third reason why industries should avoid a legalistic approach in self-regulation lies in the inadequacy of this approach for their purposes. An industry in its trade rules may be seeking to regulate situations where trade activity appears, at least at times, necessarily to involve a violation of certain common law concepts of rights. Behind many common law regulations is, for example, the theory that certain actions are wrong if

[7] A very similar line of reasoning can be applied to a self-regulatory rule which uses the term "legitimate." Who but a court can determine "legitimate" purposes? Rules which contain the phrase "for the purpose of" have the same weakness as those using the word "intent."

they are done with the intent of injuring a competitor.[8] But in modern markets with modern transportation and with modern population distribution, markets and competitors are everywhere. A business seldom, if ever, exercises any of the methods of trade extension without injury to a competitor. Every sale by one business is in a sense, and a very real sense, business which was potentially business of a competitor. It may be that those directing a business are not always conscious of the fact that when they plan extensions of their own activities they are planning diminutions of the possibilities of others with whom they compete. But this seems to be almost unavoidably the case. If trade practices need regulation, they need it on some basis which does not permit defenses on the grounds of no intent, accidental action, and the like. The trade practices which business men appear to desire to have regulated[9] are never accidental or without purpose. They are always planned and put into effect for the advantage of those who plan them.

Self-regulation in the field of business, as in most other fields, can best be achieved by admitting the point

[8] An illustration is the fact that it is considered illegal to sell below cost with the intent of injuring a competitor.

"The selling of goods below cost with the intent and with the effect of injuring a competitor and where the effect may be to substantially lessen competition or tend to create a monopoly or to unreasonably restrain trade, is an unfair trade practice." See p. 3 of the mimeographed statement dated Aug. 15, 1932, issued by the Federal Trade Commission and covering the resolutions adopted by a trade practice conference for school supply distributors at Chicago, Illinois, Feb. 11, 1932, as changed by the Commission.

For similar examples of rules making intent a factor in unfair practice see also the trade practice conference rules of the steel office furniture, petroleum and petroleum products, grocery, and electrical contracting industries.

[9] Judging from the substance of conference rules.

made above—that extensions by one business are injurious to the actual or possible gains by competitors—and by making definite rules as to what means may be ethically employed in making extensions. The recognition of this view is illustrated by the regulation of competitive games. Opposing football teams attempt by all means in their power (within the rules) to injure each other's chances of success. There is no hypocrisy in their attitude. Anything within the rules is proper, and anything outside the rules is improper. The legitimacy of action, with few if any exceptions, is independent of intent. Running out of bounds is out of bounds regardless of whether intentional or accidental, or for what reason if intentional. A baseball player either touches second, or he fails to do so. The umpire rules on the fact, not the intent. In tennis a foot fault is a foot fault without regard to purpose. Competitive games are possible largely because decisions are not delayed by investigating intent but are made on the basis of fact alone. The rule has been made on some basis which is regarded as good for all parties concerned. This makes it possible merely to ask, "Was a rule violated?" This question alone is difficult enough for an umpire in any game and difficult enough for any trade practice group in a trade action.

It hardly needs to be said that a trade group in making its own regulations must necessarily make them within a certain prescribed area. The courts will not countenance agreements looking toward monopoly in the guise of self-regulation, whether these are in the form of limitations of competition, limitations of production, allocations of territory, or definite price-fixing agreements.

Less obvious and quite as important, however, is the fact that the trade will need standards by which it determines what is an undesirable trade practice. In the long run it will need to find those forms of self-regulation which will accord with sound public policy.

As a first step toward determining what practices are unfair from the point of view of sound public policy it would seem that perhaps nothing could be more important than to consider the condemnation of those practices which all divisions of a trade will agree upon as unfair. The interests of the several divisions in most trades are sufficiently diverse and sufficiently competitive to lend presumption to the view that a practice which all of such divisions oppose is opposed to the general good; that its discontinuance will not be for the specific advantage of individuals, branches of the industry, or even the trade as a whole as against the public.

But a second, and more important, step, will be found necessary by industries that desire to progress in self-regulation. This will be *to make certain* that the practices which they condemn can be condemned on grounds of public interest and public policy. This an industry can never do when the practices it condemns are unclear even to the members of the trade concerned, when the words employed to denominate these practices are ambiguous and uncertain, and when the business and economic effects of these practices are not clearly analyzed and understood. Business practices cannot be made socially good or bad by vote; they cannot be made uneconomic by declaration; they cannot be made for or against the public interest by fiat. But when an industry has an adequate knowledge of its own practices and of their effects, it has laid a sound foundation for self-regulation, for establishing a code of rules which it can demonstrate to be both beneficial to itself and good public policy.

Beyond this point there is still the problem of enforcement. This problem is beyond the proper scope of our discussion. But it may be said that enforcement, whether it be attempted by a trade body or by widening the view of the courts concerning unfair competition in the modern world, will be facilitated by knowledge and analysis. If old economic "laws" and old legal formulas are inadequate for the direction of modern business, it is chiefly because business so little understands itself and its public function that it is feeble, if not futile, in improving the controls which now regulate. When it has greater knowledge of those of its practices which should be condemned because they conflict with sound social policy, it will have the tools with which to work for the desired "legislative and judicial response."

III. RECOMMENDATIONS FOR TRADE RULES ON ADVERTISING ALLOWANCES

A review of trade practice conference rules shows that advertising allowances have been, at times, specifically named. In other cases they fall by implication under allowances and rebates described in more general terms.[10] Examples of the first are furnished by the fertilizer and gypsum industries. A fertilizer conference Group I ruling reads:

> . . . The granting of secret rebates, irrespective of the form they may assume, constitutes unfair trade practices and . . .

[10] The most recent general publication of trade practice conference rules is *Trade Practice Conferences*, Federal Trade Commission, July 1, 1929. Rules from a number of industries have been revised by the Commission since that date and published in mimeographed form. Where such revisions are now available they are mentioned in the citations given. In some instances rules of industries mentioned are now under revision but are not yet available.

the following practice, among others, violates this principle and therefore is an unfair trade practice:

. . . .

(f) Making special allowances to buyers or consignees under the guise of advertising expense. . . .[11]

A trade practice conference of the gypsum industry formulated the Group I rule:

. . . Included within the practices prohibited, where they constitute rebates and where they are indulged in for the purpose and with the effect of discriminating in price and terms among purchasers of the same class purchasing under like conditions, are . . . giving of allowances for advertising not actually placed. . . .[12]

The prohibitions which might by implication be construed to include advertising allowances include those which condemn *all* allowances which are secret;[13] those which condemn secret allowances only when they are extended to "certain purchasers" and "not extended to all purchasers under like terms and conditions";[14] and those which declare that:

The secret payment or allowance of rebates, refunds, commissions, or unearned discounts, whether in the form of money

[11] The same, p. 189. Revised rules for this industry, including a revision of this Group I rule, were issued Aug. 4, 1931.

[12] *Trade Practice Conferences*, Federal Trade Commission, p. 193.

[13] See, for example, the Group I rules of the woodworking-machinery, woolens and trimmings, and upholstery textile industries. The same, pp. 181, 199, 204.

[14] See, for example, the Group I rules of the millwork, flat-glass, cut-stone, barn-equipment, and steel office furniture industries and the Group II rules of the paper-board industry. The same, pp. 142, 159, 185, 196, 201, 211. Revised rules, including revisions of the rule covering allowances, were issued for the millwork industry Aug. 28, 1931; for the cut-stone industry Aug. 18, 1931; and for the steel office furniture industry July 8, 1931. Revisions which did not change the wording of this rule were issued for the flat-glass industry June 1929 and for the paper-board industry Oct. 4, 1929. In the last case the revision involved a shift of the rule from Group II to Group I.

or otherwise, or secretly extending to certain purchasers special services or privileges not extended to all purchasers under like terms and conditions, with the intent and with the effect of injuring a competitor and where the effect may be to substantially lessen competition or tend to create a monopoly or to unreasonably restrain trade, is an unfair trade practice.[15]

As the rules of various industries are revised, there seems to be a tendency for the secret allowance rule to take the form last cited. As almost without exception rules applying to allowances are to be found in Group I, it appears that industry has done little to regulate advertising allowances excepting to affirm the regulation offered by the law.

One industry, however, has placed its rules concerning allowances and rebates in Group II and has given them a non-legal phraseology. The petroleum and petroleum products industry Group II rules include the statements:

> No seller shall make any deviation from his posted prices (whether wholesale or retail) by means of secret rebates, allowances, bonuses, concessions, benefits, unusual credits, scrip books, or any plan, device or other scheme which may directly or indirectly permit the buyer to obtain gasoline or kerosene at a lower net cost to him.
>
> . . . .
>
> On a charge in the posted price, no adjustments, allowances, credits or refunds shall be given to any buyers on deliveries already made.[16]

[15] See p. 2 of the mimeographed statement dated Mar. 14, 1932, issued by the Federal Trade Commission and covering the resolutions adopted by a trade practice conference for the grocery industry at Chicago, Illinois, Oct. 24, 1928, as changed by the Commission.

[16] See pp. 5-6 of the mimeographed statement dated Aug. 10, 1931, issued by the Federal Trade Commission and covering the resolutions adopted by a trade practice conference for the petroleum and petroleum products industry at St. Louis, Missouri, Feb. 11, 1929, as changed by the Commission.

Before proceeding to make suggestions for modification of existing rules to cover advertising allowances more adequately, it is important to recall the philosophy which is behind the practice of giving such allowances. Our survey has shown the philosophy to be that something shall be given for something.[17] The advertising allowance had its origin and development in the idea that it consisted of a co-operative arrangement which yielded a gain both to the giver and the receiver of the allowance. This philosophy can be valid only so long as those who give and receive allowances are reasonably sure that such is the case. The phrase, as we have seen, has come to cover a number of co-operative relationships which cannot be adequately measured and which in some cases are merely price cutting. It may be impossible for a trade practice group to eliminate these practices even if it should desire to do so, but they should at least be clearly set off and distinguished from other practices from which they are actually distinct. A trade practice conference committee considering advertising allowances would, therefore, be well advised to agree:

1. That the term "advertising allowance" is, in the opinion of the trade, used inaccurately and unethically when it is applied to any part of a price offer or used otherwise than to denote a payment for the purchase of specific promotion services.

2. That advertising allowances are, in the opinion of the trade, unethical except when given as payments for specific promotion performances which are *possible, practicable,* and *capable of being audited.*

3. That advertising allowances shall be arranged for

[17] See pp. 14-15. This is the reverse of the philosophy suggested in connection with deals, which has grown up on the theory that something is thrown in as an extra.

in agreements entirely separate and distinct from sales agreements.

4. That advertising allowance agreements shall definitely specify exactly how much shall be paid (in money or credit, goods or services) by the giver of the allowance, exactly what services shall be rendered by the recipient of the allowance, and the method of auditing performance which the allowance giver shall employ.

The trade should consider the advisability of condemning all advertising allowances which are secret on the ground that the terms of secret arrangements cannot be known and on the ground that the suspicion and mistrust engendered in the trade and the loss of time involved in transacting business in such a trade atmosphere offset such advantages as may be found in secret arrangements.

APPENDIX

APPENDIX

QUESTIONNAIRE RETURNED BY GROCERY MANUFACTURERS

The questionnaire reproduced below is presented as a sample of those used in gathering data for Chapters III and IV. A similar questionnaire, but adapted to the trade groups concerned, was used either in the mail or in personal interviews to secure information from wholesalers and chains in the grocery industry and from manufacturers in other fields.[1] It will be obvious to anyone examining this sample questionnaire that it covers a considerable range of topics other than advertising allowances. It was indeed submitted as a means of studying a variety of competitive practices, discussion of which is planned for subsequent publications.

[1] The returns from a similar questionnaire organized from a purchaser's point of view, but not dealing specifically with advertising allowances, were made by purchasing agents.

QUESTIONNAIRE ON PRICE DIFFERENTIALS

The Institute of Economics of The Brookings Institution submits this questionnaire to members of the Associated Grocery Manufacturers of America at the request of the President and a Committee of the Association. The questions will require the attention of an important executive. The answers can often be given by checking. Comments at any point will be helpful. Promptness in replying is highly desirable.

I. GENERAL INFORMATION

1. Name of company?

2. Location { General office?
Chief plant?

3. Distribution. { National?
or
Name area covered

4. Length of time company has been in business?__________

5. Net sales (in dollars) 1930,__________________ (1929 if 1930 not available)__________

6. Is business chiefly in nationally advertised brands? Yes________No________

7. What is chief line or lines of products manufactured?

8. How many branch plants are there, if any?____________

9. How many branch warehouses do you operate?__________

10. What proportion of sales, if any, are exports?__________

11. What proportion of sales are sales to the grocery trade? ______ To other than the grocery trade? ______

II. CHIEF CHANNELS OF DISTRIBUTION

1. Approximately what proportion of your dollar volume is sold directly to each of the following types of distributors now and five years ago? (Interpret the following list of distributors as you do in your own sales operations. Add remarks where they may be helpful.)

	Now	5 Years Ago
Independent retailers (other than voluntary chains or retailer-owned wholesalers)	______	______
Voluntary chain stores	______	______
Buyers for other co-operative groups	______	______
Chain stores (other than voluntary chains)	______	______
Wholesalers	______	______
Hotels, restaurants	______	______
Other institution buyers such as hospitals	______	______
Government buyers	______	______
Mail order houses	______	______
Department stores	______	______
Others (give trade name)	______	______

2. Do you make any of your customers exclusive agents in certain territories

   a. For some of your products? Yes__________No__________

   b. For all of your products? Yes__________No__________

III. PRICE POLICIES

A. List Price, Definition: A printed or otherwise announced "standard" scale of prices.

1. Is it your practice to publish list prices? Yes_____No_____

   a. If so, what lists to wholesalers (jobbers)?

      (1) Price subject to no discount other than cash discount____________

      (2) Price subject to trade discount____________

      (3) Price providing for allowances other than cash or trade discounts_________Describe plan.

   b. Which lists, if any, to chains?____________________

   c. A price at which you would sell retailers direct? Yes__________No__________

   d. A suggested resale price to consumers? Yes_______ No__________

   e. Any other?____________________________________

2. If you have a published list price, does it include regularly announced discounts for particular quantities or other considerations? Yes__________No__________

3. If you do not have a published list price, what is your pricing practice?

a. Unpublished prices for the use of your own sales force__________

b. Reference to published price lists of others__________

c. Each sale a matter of special arrangement__________

4. If you have a list price, do you sometimes make special arrangements (other than regular quantity or trade or cash discounts) at other than the published list prices? Yes________No________

5. a. In deciding whether to manufacture a certain item, is it one of your common methods to determine what the retail price of the item should be and then figure back from this to determine whether you can produce the item at a satisfactory profit? Yes______No______

   b. In determining price to be charged for an article, is it one of your common practices to find your production and administration cost and then add selling and advertising cost and a profit to determine selling price? Yes________No________

   c. What formula do you use, if any; for example, "manufacturing cost should equal half of consumer's price"? ____________________

   d. A general discussion of the points a., b. and c. will be helpful.

B. Discounts or Differentials for Quantity Only. Note following definitions for three classes of these:

a. For quantity orders: Discounts or differentials on *orders* for a large *single delivery* to a single destination for a single product or for a mixed purchase.

b. For quantity contracts: Discounts or differentials given for placing a *contract* of unusual size either for a single product or for a mixed purchase to be shipped in more than one delivery at separate dates, other than "prompt."

c. For cumulative volume: Discounts for differentials given to customers whose purchases of a single product or of various products *total* a certain amount in a *given period.*

I. Discounts or Differentials for Quantity *Orders* (not contracts or cumulative volume, for definition see a. above).

1. Is it your policy to give reductions from your published price list or other standard schedule (discounts, rebates, or special prices) as orders, each for a single delivery, increase in size? Yes________No________

2. If so, do you have a standard schedule of such reductions or is each a special arrangement? Standard________ Special________ Both________

3. If standard, is your schedule of reductions published? Yes________No________
If standard, please enclose schedule and mark as Exhibit A.

4. If special, please give examples of typical reductions on several items.

Item	Standard Price	Quantity	Percentage Reduction	Reduced Price

5. Has your policy concerning reductions for quantity orders changed within the past 5 years? Yes________ No________

6. If changed,

a. How has your policy concerning reductions for quantity orders changed in the past 5 years?

b. Was it for

Legal reasons?________

Reasons of business expediency?________

Name other reasons, if any.

c. A full discussion of the above will be helpful.

7. If it has not been your practice to give reductions for quantity orders at any time during the past 5 years,

   a. Was it your practice at an earlier time? Yes______ No______

   b. If practiced at an earlier time, was it abandoned for

      Legal reasons?________

      Reasons of business expediency?________

      Name other reasons, if any.

   c. A full discussion of the above will be helpful.

II. Questions on Discounts or Differentials for Quantity *Contracts* (not orders or cumulative volume, for definition see b. under B., Part III).

   1. Is it your policy to give reductions from your published price list or other standard schedule (discounts, rebates, or special prices) as contracts increase in size? Yes________No________

   2. If so, do you have a standard schedule of such reductions, or is each a special arrangement? Standard________Special________Both________

   3. If standard, is your schedule of reductions published? Yes________No________
   If standard, please enclose schedule and mark as Exhibit B.

4. If special, please give examples of typical reductions on several items.

Item	Standard Price	Quantity	Percentage Reduction	Reduced Price

5. Has your policy concerning reductions for quantity contracts changed within the past 5 years? Yes________ No________

6. If changed,

   a. How has your policy concerning reductions for quantity contracts changed in the past 5 years?

   b. Was it for

      Legal reasons?________

      Reasons of business expediency?________

      Name other reasons, if any.

   c. A full discussion of the above will be helpful.

7. If it has not been your practice to give reductions for quantity contracts at any time during the past 5 years,

   a. Was it your practice at an earlier time? Yes________ No________

   b. If practiced at an earlier time, was it abandoned for

      Legal reasons?________

      Reasons of business expediency?________

      Name other reasons, if any.

   c. A full discussion of the above will be helpful.

III. Discounts or Differentials for *Cumulative Volume* (not quantity contracts or orders, for definition see c. under B., Part III).

1. Is it your policy to give reductions from your published price list or other standard schedule (discounts, rebates, or special prices) to customers whose purchases total a certain amount in a given period? Yes.................... No....................

2. If so, do you have a standard schedule of such reductions, or is each a special arrangement?
Standard....................Special....................Both....................

3. If standard, is your schedule of reductions published? Yes....................No....................
If standard, please enclose schedule and mark as Exhibit C.

4. If special, please give examples of typical reductions on several items.

Item	Standard Price	Cumulated Quantity	Period of Time	Percentage Reduction	Reduced Price

5. Has your policy concerning reductions for cumulative volume changed within the past 5 years? Yes.................... No....................

6. If changed,

   a. How has your policy concerning reductions for cumulative volume changed within the past 5 years?

   b. Was it for

      Legal reasons?....................

      Reasons of business expediency?....................

      Name other reasons, if any.

c. A full discussion of the above will be helpful.

7. If it has not been your practice to give reductions for cumulative volume at any time during the past 5 years,

   a. Was it your practice at an earlier time? Yes_______ No_______

   b. If practiced at an earlier time, was it abandoned for

      Legal reasons?_________

      Reasons of business expediency?_________

      Name other reasons, if any.

   c. A full discussion of the above will be helpful.

C. REDUCTIONS IN PRICE AS INCENTIVES TO INCREASED VOLUME.

1. Do you give reductions (rebates, discounts, or special prices) to customers who increase their volume in a given period as compared to a preceding period? Yes_______ No_______

2. If so, do you have a standard schedule for such reductions? Yes_________No_________. If so, please enclose schedule of such reductions and mark as Exhibit D.

3. If you use no standard schedule, is each arrangement a special one? Yes_________No_________
   If special, please enclose brief description of 3 typical arrangements (names of customers unnecessary), and mark as Exhibit E.

4. Has your policy changed within the past 5 years in this respect? Yes_________No_________

5. If changed,

   a. Describe changes in representative arrangements.

b. Was change for

Legal reasons? ________

Reasons of business expediency? ________

Name other reasons, if any.

c. A full discussion of the above will be helpful.

D. DIFFERENTIALS IN PRICE BECAUSE OF CLASSES OF TRADE.

1. Cross out of the following list those to whom you do not sell direct. Are your prices uniform to all of the remaining classes? Yes________No________

Independent retailers (other than voluntary chains or retailer-owned wholesalers)
Voluntary chain stores
Buyers for other co-operative groups
Chain stores (other than voluntary chains)
Wholesalers
Hotels, restaurants
Other institution buyers such as hospitals
Government buyers
Mail order houses
Department stores
Others (give trade name)

2. If not uniform, state differentials from standard price given to each trade class.

Independent retailers (other than voluntary chains or retailer-owned wholesalers)________
Voluntary chain stores________
Buyers for other co-operative groups________
Chain stores (other than voluntary chains)________
Wholesalers________
Hotels, restaurants________
Other institution buyers such as hospitals________

Government buyers..........................
Mail order houses..........................
Department stores..........................
Others (give trade name)..........................

3. Has your policy concerning discounts to different classes of trade changed within the past 5 years? Yes.......................... No..........................

4. If changed,

   a. How has your policy concerning discounts to different classes of trade changed?

   b. Was the change for

      Legal reasons?..........................

      Reasons of business expediency?..........................

      Name other reasons, if any.

   c. A full discussion of the above will be helpful.

5. Is there any trade group to which you have not given a trade discount during the past 5 years but to which you nevertheless gave such a trade discount in some earlier period? Yes..........................No..........................

6. If so,

   a. To which trade group was the discount given?

   b. Was the practice abandoned for

      Legal reasons?..........................

      Reasons of business expediency?..........................

      Name other reasons, if any.

   c. A full discussion of the above will be helpful.

E. Allowance of Brokerage.

1. What fee, as a percentage of sales (or per unit), do you ordinarily allow brokers?..............................

2. Do you ever directly or indirectly allow brokerage to buyers who buy direct

   a. In markets where you have brokers? Yes.................... No....................

   b. In markets where you do not have brokers? Yes....................No....................

F. Credit Terms and Practices.

1. Credit terms.

   a. Does time run from date of invoice? Yes.................... No....................

   b. Is invoice dated the date of shipment or date of delivery? Date of shipment..............................Date of delivery..............................

   c. Does time run from date of delivery without regard to date of invoice? Yes....................No....................

   d. Do you give advance dating? Yes..................No..................

   e. Do you give varying discounts depending upon time of year delivery is made? Yes..................No..................
   If so, give examples.

2. Credit practices.

   a. Do you permit cash discount if payment is made beyond discount period? Yes..................No..................

b. If so, under what circumstances?

(1) How many days of grace?..................

(2) Other circumstances (describe)

c. If not, list methods used to collect unearned discounts which customers take.

3. Has your policy changed in these matters during the past 5 years? Yes..................No..................

4. If your credit terms or practices have changed during the past 5 years,

a. How have they changed?

b. Why?

G. Special Prices. Definition: Those given to certain customers for special reasons such as to introduce a new product, to secure new customers, to meet unusual competition, to clear stock. Not intended to include such practices as advertising allowances and free deals. These are considered on later pages.

1. Do you find it necessary or expedient to give special prices to introduce a new product? Yes..................No..................

A discussion of your views and experiences will be helpful.

2. Do you find it necessary or expedient to give special prices to get new customers? Yes..................No..................

A discussion of your views and experiences will be helpful.

3. In order to meet unusually severe competition, do you sometimes find it necessary or expedient to give special prices

a. In a market generally? Yes__________No__________

b. To particular customers? Yes__________No__________

A discussion of your views and experiences will be helpful.

4. Do you use special prices to move excess stocks of

a. Unbranded merchandise? Yes__________No__________

b. Branded merchandise? Yes__________No__________

H. Prices Related to Customer Policies, that is, better prices given to those customers who carry on policies believed to be helpful to the seller.

1. Do your prices favor customers who follow your suggestions for maintaining resale prices? Yes__________ No__________

2. Do your prices favor customers who give or promise to give special effort to selling or promoting your goods (co-operative advertising not included)? Yes__________ No__________

3. Do your prices favor customers who buy or promise to buy certain products exclusively from you? Yes__________ No__________

4. Do your prices favor customers who do place or who agree to place a certain percentage of their business in certain products with you? Yes__________No__________

5. Do your prices favor customers who carry your full line of goods? Yes__________No__________

6. Do your prices favor concerns which you believe have unusually good management or which you believe will sometime become large buyers or otherwise unusually good customers, even though present buying is not great? Yes__________No__________

7. Do your prices vary definitely as among different geographical locations?

   a. As among countries? Yes__________No__________

   b. As among areas in this country? Yes__________ No__________

   c. As among different districts in a particular city? Yes__________No__________

I. Is it your practice to make special prices on any bases other than those mentioned above? Yes__________No__________. If so, cite examples. (Names of companies unnecessary.)

IV. SERVICE POLICIES

A. Delivery.

1. Is it your regular practice to pay freight or other main transportation charges on purchases made of you?

   a. On some products? Yes__________No__________

   b. On all products? Yes__________No__________

2. If not regular practice for all customers, is it regular for certain ones? Yes__________No__________. If so, why?

3. Do you make allowances to wholesalers to cover their shipments to retailers from jobbers' stock? Yes__________ No__________

4. Do you sometimes offer to pay transportation costs as a special inducement to secure an order? Yes__________ No__________

5. Is it your practice to make store door deliveries to your customers?

a. A general practice? Yes..................No..................

b. In some markets? Yes..................No..................

6. If it is your general practice to sell to different trade classes, do you find more frequent deliveries required

a. By independent retailers than by wholesalers? Yes..................No..................

b. By independent retailers than by chain stores? Yes..................No..................

c. By chain stores than by wholesalers? Yes.................. No..................

7. If you sell to centrally managed chain stores, is delivery usually

a. F.o.b. your warehouses?..................

b. To their warehouses?..................

c. To individual stores?..................

8. If you sell to voluntary chains, is delivery usually

a. F.o.b. your warehouses?..................

b. To their warehouses?..................

c. To individual stores?..................

9. If you sell to wholesalers, is delivery usually

a. F.o.b. your warehouses?..................

b. To their warehouses?..................

10. Have your delivery practices changed within the past 5 years? Yes..................No..................If so, how?

11. If you carry warehouse stocks, do you charge a different price for f.o.b. warehouse than for direct deliveries f.o.b. freight station? Yes________No________. If so, what is the differential? ________

12. Do you ship l.c.l. lots to customers in pool cars? Yes________No________

13. If you ship goods in pool cars, is there a price differential between deliveries so made and deliveries made

    a. In carload lots? Yes________No________

    b. In l.c.l. lots (other than in pool cars)? Yes________ No________

B. TRADE-MARKS.

1. Do you sometimes sell goods under the brand of a customer which are identical in every other way to goods sold under your own trade-mark? Yes________No________

2. To whom do you most extensively sell customers' brand goods otherwise identical to goods sold under your own brands? (Give the number 1 to the type of buyer below found most important in this class of trade; 2 to the next most important; etc.)

    Independent retailers________

    Wholesalers________

    Voluntary chains________

    Regular chains________

    Mail order houses________

3. Do you sell unbranded goods which are identical in every other way to your regular trade-marked brands? Yes________No________

4. If you sell unbranded goods identical to goods sold under your regular trade-mark, to whom do you sell it most extensively? (Number in order of importance as done in 2. above.)

   Independent retailers..................

   Wholesalers..................

   Voluntary chains..................

   Regular chains..................

   Mail order houses..................

   Institutional buyers..................

5. If you sell otherwise than under your own trade-mark, about what proportion of your business now and five years ago

	Now	5 Years Ago
a. Under your own advertised brand?	....	....
b. Under a private label?	....	....
c. Unlabeled?	....	....
d. Other method, if any (designate method)	....	....

6. If you sell goods of the same grade or quality under more than one label, or sometimes labeled and sometimes unlabeled,

   a. Do you charge the same price in each case?
   Yes..................No..................

b. If you charge different prices, which carries the highest and which the lowest price? (Check below.)

	Highest Price	Lowest Price	Do Not Sell under Such Brand
Manufacturer's advertised brands	....	....	....
Private label	....	....	....
Unlabeled	....	....	....
Other practice, if any (describe)	....	....	....

C. ADVERTISING ALLOWANCES.

1. Do you sometimes give advertising allowances to customers?
(Free deals not included here. See D. below.)
Yes........ No........

2. If so, is this done

a. To introduce a new product? Yes........ No........

b. To secure large orders? Yes........ No........

c. To secure a new customer? Yes........ No........

d. To retain certain "good" customers? Yes........ No........

e. To meet unusual competition? Yes........ No........

f. For other reasons (if so, designate)?

3. If you give advertising allowances, do you

   a. Pay for space used or other costs actually incurred by customers in advertising your product? Yes.................. No......................

   b. Pay flat amount? Yes....................No....................

   c. Pay an allowance per unit of product sold? Yes....................No....................

4. Have you a standard plan for applying your policy of advertising allowances? Yes....................No..................... If so, describe.

5. To which trade groups do you most often give advertising allowances? (Number group given allowance most often 1, next most often 2, etc.)

   Independent retailers....................

   Wholesalers....................

   Voluntary chains....................

   Regular chains....................

   Mail order houses....................

   Department stores....................

D. Free Deals, Premiums.

1. Do you sometimes and in some markets give free deals to dealers, either wholesale or retail, in connection with the sale of your products? Yes....................No....................

2. If so, is this done

   a. To introduce a new product? Yes..............No..............

   b. To secure large orders? Yes..............No..............

c. To secure a new customer? Yes.................No.................

d. To retain "good" customers? Yes........................
No........................

e. To meet unusual competition? Yes........................
No........................

f. For other reasons (if so, designate)?

3. If so, to which trade groups do you most often give free deals? (Number group given free deal most often 1, next most often 2, etc.)

Independent retailers........................

Wholesalers........................

Voluntary chains........................

Regular chains........................

Mail order houses........................

Department stores........................

4. Do you sometimes and in some markets give premiums in any form to dealers, either wholesale or retail, in connection with the sale of your products? Yes.................No.................

5. If so, is this done

a. To introduce a new product? Yes.................No.................

b. To secure large orders? Yes.................No.................

c. To secure a new customer? Yes.................No.................

d. To retain certain "good" customers? Yes........................
No........................

e. To meet unusual competition? Yes..................
No..................

f. For other reasons (if so, designate)?

6. If so, to which trade groups do you most often give premiums? (Number group given premium most often 1, next most often 2, etc.)

Independent retailers..................

Wholesalers..................

Voluntary chains..................

Regular chains..................

Mail order houses..................

Department stores..................

7. A discussion of your views and experiences in the matters referred to in questions 1-6 just above will be helpful.

E. Return of Unsold Goods.

1. Do you sometimes and in some markets offer to accept cancellation of the portion of an order contracted for but unsold at the end of a specified period? Yes..................
No..................

2. A discussion of your views and experiences in this matter will be helpful.

F. Guarantee Against Price Decline.

1. Do you sometimes guarantee price against a decline in

a. Your own price? Yes..................No..................

b. General market price? Yes..................No..................

2. If you do guarantee price, what is the usual time limit of such a guarantee?________________

3. If you give a guarantee against a general price decline, does it extend to floor stocks? Yes_________No_________

4. If you give a guarantee against your own price decline, does it extend to floor stocks? Yes_________No_________

G. CONTROL OF CUSTOMERS' INVENTORIES.

1. Do you try to control the inventory of your goods held by your customers? Yes__________No__________

2. Check the ones of the following for which you try to control the inventory of your goods.

   Independent retailers__________

   Wholesalers__________

   Regular chains__________

   Voluntary chains__________

   Name any others.

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