NATIONAL ADVERTISING VS. PROSPERITY

RALPH BORSODI

To E W Fairchild —

Oh what a tangled web we weave –
To make the world a truth receive!

Roger Brooks'

May 28, 1923

NATIONAL ADVERTISING vs. PROSPERITY

National Advertising vs. Prosperity

A STUDY OF THE ECONOMIC CONSEQUENCES OF NATIONAL ADVERTISING

BY

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TO

JULIAN R. TINKHAM

A Friend in Pioneering

FOREWORD

The larger part of the material in this book consists of a series of sixty-six articles which were published in *The Daily News Record* of New York under the general title of "The National Advertisers, the Distributors, and the Public." The remainder consists of material which it proved inappropriate to publish serially in a daily newspaper.

So many friends and acquaintances have helped me in this work that it is impractical—I was almost going to say impolitic—for me to acknowledge my indebtedness by formally naming them. I cannot, however, omit a word of appreciation for the farsighted policy displayed in making the columns of *The Daily News Record* an open forum for the discussion of this tremendously important subject.

One thought and I am through. This book is iconoclastic only in the strictest sense of the term. The methods which I criticize, I have here criticized in the hope that they will soon cease to be factors in marketing. I would have them destroyed for the same reason that the builders of better buildings tear down the structures on the sites where they purpose to build. I would have national advertising replaced by national marketing, the advertising expert become a marketing engineer, and a real profession replace the present all too commercial advertising expert—a profession which would seek to make the marketing of all products more and more efficient and less and less costly to the commonwealth.

RALPH BORSODI.

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NATIONAL ADVERTISING vs. PROSPERITY

PART I

ECONOMIC CONSEQUENCES OF NATIONAL ADVERTISING

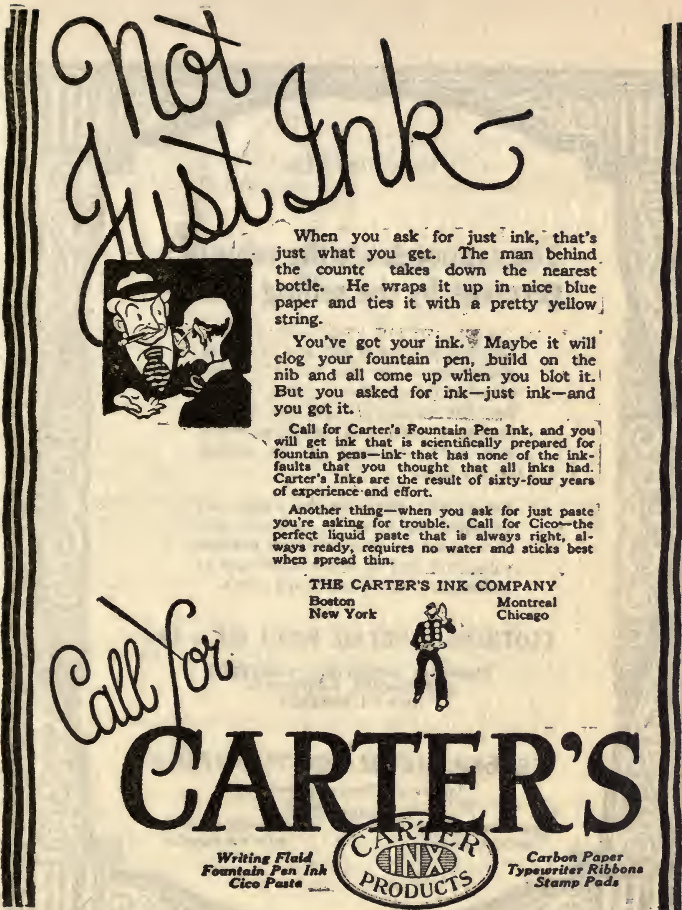
We have now reached a point where it costs more to distribute and serve than it does to produce. . . . Commodity values are lost in a mass of service costs, and the time has come for a consideration of the fundamental problem of the economic distribution of the essentials of living.—Congressional Commission on Agricultural Inquiry.

NATIONAL ADVERTISING: WHAT IT IS AND WHAT IT IS NOT

National advertising, Advertising by a manufacturer, irrespective of the mediums utilized, which is addressed to ultimate consumers for the purpose of creating consumer-demand sufficient to force, or at least assist, in inducing retailers to stock the advertiser's product. Synonym, consumer advertising.

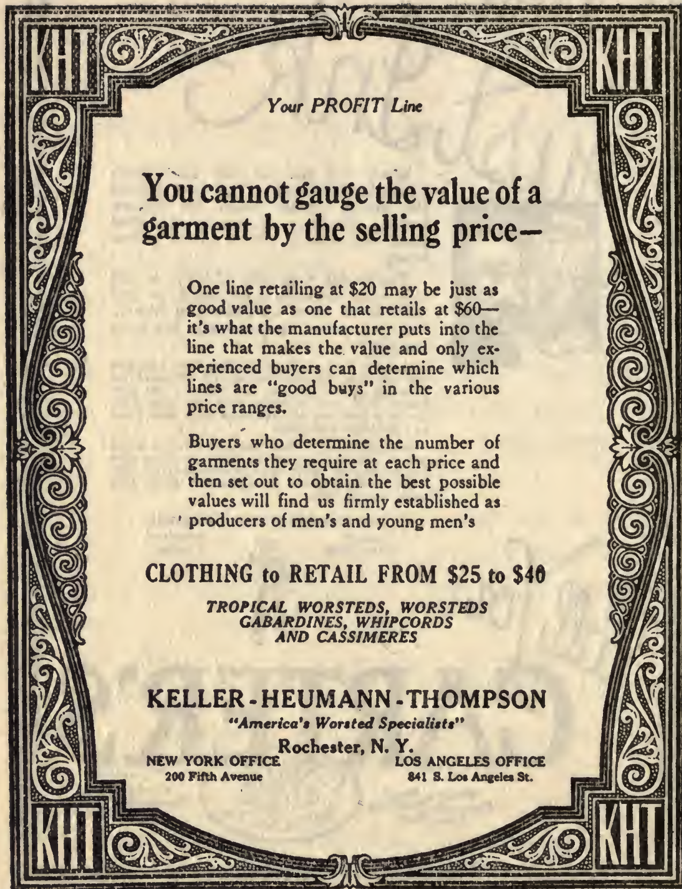
Trade advertising, Advertising by a manufacturer or by a wholesaler, irrespective of the mediums utilized, addressed to those in the trade who are prospective buyers of the advertiser's product either for the purpose of reselling it or to use it in manufacturing or further fabrication.

Retail advertising, Advertising by a merchant, irrespective of the mediums utilized, for the purpose of securing new customers and holding the patronage of those customers who already trade with the advertiser.



NATIONAL ADVERTISING

A typical advertisement in a national campaign. Note the assumption that the retailer would give his customer a poor ink and that the consumer should therefore call for Carter's Ink. The advertiser is trying to create a demand for his particular brand.



TRADE ADVERTISING

This advertisement from "Men's Wear" is a good example of trade advertising. The manufacturer tells the story of his merchandise—the grade, the prices, and the value. The advertiser is trying to supply the natural demand for his product.

Arnold, Constable & Co.

Founded 1827 ; Reorganized 1923. Fifth Avenue at Fortieth Street

For quick disposal, a choice collection of

Oriental Rugs

\$170 *to* \$285

Fine Persian weaves, 7 to 9½ feet wide by 10 to 13 feet long. Unusually heavy rugs in beautiful tones of rose and blue. Small Persian designs, which make these rugs particularly appropriate for rooms of moderate proportions. *Worth coming early for*

Sale of Printed Silks

Crepe-de-Chine, 40 inches wide
1,200 yards, 3.25 to 3.50 grades. } 1.95 a yard

Six new patterns for frocks, over-blouses, sports skirts, millinery trimming. Brilliant combinations of color and design, suggestive of the Orient, Egyptian hieroglyphics done in delicate dot tracery instead of solid lines; flowers, and quaint all-over effects of birds and foliage.

Retail Advertising

A newspaper advertisement of a department store. Note that the advertisement is essentially news—it informs the public that specific merchandise is on sale. The advertiser is trying to supply a natural demand for merchandise.

I

NATIONAL ADVERTISING

During the year 1923 the probable expenditures of advertisers in national advertising will be around $500,000,000.

Year by year the expenditure has been increasing.

It is difficult to estimate accurately the rate of increase, but if we assume it to be substantially the same as the rate of increase of the advertising inserted in leading magazines of the country, we shall probably come very near the actual rate.

In 1915 advertisers spent $38,737,336 in 76 monthly and weekly magazines, women's publications and farm journals. In 1916 they spent $51,867,803 in 77 publications; in 1917, in the same number of publications, $57,793,628; in 1918, in 72 publications, $61,312,888; in 1919, it was $97,208,-791; in 1920, it was $132,414,799.

This would indicate that the expenditure was more than trebling itself every five years. As, however, the year 1921 (the year of deflation), showed a reduction in advertising in these publications to $95,439,236, this rate would be too high.

A very conservative estimate based upon these figures would be that the expenditure more than doubles itself every five years.

This means that if the expenditure for national advertising was $500,000,000 in 1920, that it will be $1,000,000,000 in the year 1925; $2,000,000,000 in 1930; $4,000,000,000 in 1935; $8,000,000,000 in 1940, and so on ad infinitum to the advertising millenium.

Even those who have carefully observed the growth of national advertising and who have noted from year to year the growth of the circulations of the national mediums, the increases in the amount of advertising in them, and the sizes of spaces used by individual advertisers, find it difficult to visualize the magnitude of the industry which may ultimately be devoted to national advertising. It is already an industry that has attracted thousands of the ablest minds of the country, and diverted from other more productive industries great armies of workers in paper making, printing, engraving and allied fields. The raw materials used in the industry, the pulp wood, coal, lead, copper, zinc, represent great drafts upon the natural resources of the earth.

Through the courtesy of The Curtis Publishing Company, of Philadelphia, PRINTERS' INK was enabled to make public a list showing the sums spent by fifty leading national advertisers in thirty-six publications in the year 1921.

Name	*Principal Products*	*Amount*
Joseph Campbell Co.	Campbell's Soup	$1,316,095
Victor Talking Machine Co.	Victrolas	1,239,693
Procter & Gamble Co.	Ivory Soap, Crisco	1,198,458
The Congoleum Co.	Congoleum Rugs	783,431
Swift & Company	Swift's Premium Ham	694,600
The Pepsodent Co.	Pepsodent Tooth Paste	680,770
California Ass'd Raisin Co.	Sun Maid Raisins	659,635
Lever Bros. Co.	Lux, Lifebuoy Soap, Rinso	646,277
The Barrett Company	Barrett Roofing	612,249
Colgate & Company	Tooth Paste FAB	596,781
Goodyear Tire & Rubber Co.	Tires	593,685
Fels & Company	Fels Naptha Soap	583,510
The Quaker Oats Co.	Quaker Oats, Puffed wheat	553,892
Eastman Kodak Co.	Kodaks	553,375
Cudahy Packing Co.	Old Dutch Cleanser	543,090
The Palmolive Company	Palmolive Soap	524,797
Columbia Graphophone Co.	Columbia Graphophones	497,411
Andrew Jergens Co.	Woodbury's Soap	484,885
Vacuum Oil Co.	Mobiloil	479,464
Postum Cereal Co. Inc.	Postum, Post Toasties	466,312
Lehn & Fink, Inc.	Pebeco, Lysol	448,250
The R. L. Watkins Co.	Emulsified Coconut Oil Shampoo	438,682
Corn Prod. Refining Co.	Karo, Mazola	429,506
The Fleischmann Co.	Fleischmann's Yeast	419,872
Northwestern Yeast Co.	Magic Yeast	390,070
Famous Players-Lasky Corp.	Paramount Pictures	385,250
U. S. Rubber Company	Keds, U. S. Tires	382,523
Alfred H. Smith Co.		371,205

Name	*Principal Products*	*Amounts*
American Radiator Co.	Radiators and Boilers	370,801
Johns-Manville, Inc.	Asbestos Products	369,580
Dodge Brothers Co.	Dodge Automobiles	369,132
The Bon Ami Co.	Bon Ami	350,387
Cream of Wheat Co.	Cream of Wheat	348,770
Armstrong Cork Co.	Armstrong's Linoleums	345,903
Southern Cotton Oil Trad. Co.		339,246
General Electric Co.	Electrical Appliances	333,642
Thomas A. Edision, Inc.	Edison Phonographs	326,471
Pompeian Company	Pompeian Massage Cream	311,591
Union Carbide & Carbon Corp.		309,993
Brunswick-Balke-Collender Co.	Phonographs	302,975
International Silver Co.	Rogers 1847 Silverware	302,200
Firestone Tire & Rubber Co.		302,027
United Drug Company	Rexall Remedies	300,222
General Cigar Co. Inc.	Cigars	286,460
Morris & Company	Meat Products	282,030
Hart Schaffner & Marx	Men's Clothes	279,407
LaSalle Extension University	Correspondence Courses	277,942
Maxwell-Chalmers Co.	Automobiles	272,200
Calfornia Fruit Growers Ex.	Sunkist Oranges	265,106
Hupp Motor Car Corp.	Automobiles	264,500
Total of these advertisers in the thirty-six magazines reviewed		$23,884,372

This compilation does not, of course, include the total advertising expenditure of the concerns listed. It represents their expenditures in only thirty-six magazines to begin with, and includes none of their expenditures in the other general magazines, in newspapers, farm papers, theatre programs, direct-mail, window-displays, novelties, premiums, motion pictures, slides, directories, signs and other mediums.

The expenditure of a single one of these national advertisers for a single piece of "copy" running in a list of magazines today is greater than the total expenditures of many advertisers in a whole year ten years ago.

When it is not unusual to spend $17,000 for the insertion of one advertisement in one magazine, it is easy to believe that in the infancy of national advertising this sum was greater than the total annual appropriations of many advertisers.

The national magazines had at that time circulations that hovered around the 100,00 mark. Rates that were around $1 per line were high rates, which magazine solicitors worked hard to justify to the advertisers.

Today circulations range around the 1,000,000 mark. Advertising rates of $10 and $12 per line are being justified with probably less difficulty than rates of one-tenth that amount 20 years ago.

Is this enormous development of national advertising a good thing for others than those who may directly profit from it?

A careful reading of the books upon advertising and of the writings in the trade press devoted to advertising shows that up to the present time those who have given thought to the matter very generally assume that *since national advertising* *has proven profitable to many national advertisers, it is therefore beneficial to business as a whole.*

It is generally assumed that national advertising, which is in certain lines of merchandise extremely profitable, can be profitably used to exploit all lines of merchandise. Some time ago an advertising agency headed a double page advertisement in PRINTERS' INK with this challenge to manufacturers who felt their product could not be advertised: "Is There Anything Unadvertisable?"

Most advertising men assume that the problem of advertising a particular line of products, as, for instance, clothing, is purely a technical one relating to the discovery of the right sales plan, the selection of the right mediums, and the writing of the right copy. Practically every advertising agency will undertake the management of a consumer campaign, no matter what the product involved, with these considerations in mind and feel confident of the success of the campaign, *provided the appropriation be large enough to secure the necessary effect upon the consumer.* Naturally, most of the thought of the advertising world is devoted to the technical problem of securing "results," and broad economic and ethical considerations are very largely ignored. General economic conditions are considered only in so far as they are essential to the development of a sales plan which will enable the advertising to yield the maximum in results.

The great immediate importance of making the advertising effective, since the profits both of the manufacturers and of the advertising agencies and mediums are dependent upon it, has resulted in the literature of advertising devoting only the scantiest attention to the question of whether national advertising was a good thing for others than the fortunate advertisers whose campaigns proved successful.

Since profits were only to be made in making advertising effective, in making national advertising "pay" the advertisers, it was taken for granted that the development of national advertising represented not merely a profitable line of endeavor for those immediately involved, but also a progressive development in our economic life.

It is high time that serious consideration be given to those questions which the proponents of national advertising have almost entirely ignored.

Here is a powerful economic force of the full incidence of which the average business man is only dimly aware, which today profoundly influences our methods of producing and distributing merchandise.

The average business man, absorbed by the daily task of attending to an infinite number of details connected with his business, has neither the time nor the aptitude to exhaustively study economic tendencies. Yet the future of his business, and, in a crisis, his solvency, may depend upon whether he had adopted a policy that makes him the beneficiary of the economic opportunities of his times, or the victim of forces which he alone is powerless to control.

Can merchants be made to realize that both the future of their business and their self-respect in many cases are involved in the question of whether they are to become mere distributors of nationally advertised merchandise, or whether they are to remain merchants buying and selling the products their customers need?

THE PROBLEM

Is national advertising a good thing for others than the manufacturers who are successful, the advertising agencies, and the advertising mediums?

Is it a good thing for the public to buy nationally advertised merchandise in preference to merchandise which is not thus advertised?

Is it a good thing for retailers to sell nationally advertised goods?

Is it a good thing for wholesalers to distribute nationally advertised products?

Is it a good thing for the various industries that some of the manufacturers in the industry are national advertisers?

What has been the effect upon business of the growth of national advertising?

What would be the effect upon business if national advertising were to be universally applied in all industries and by all manufacturers?

Finally, what would be the effect upon business if national advertising as it exists today were to be largely abandoned?

It is in the hope that some light can be thrown upon these matters that this book is written.

II

PROSPERITY AND BUYING-POWER

If the questions asked in the preceding chapter are to be answered with some regard to logic, it is necessary for us to spend a little time upon some of those basic economic propositions which most business men take quite for granted.

What makes such a, perhaps, tedious method of getting to an answer necessary, is the fact that in ninety-nine out of every hundred discussions of the subject, the advocates of national advertising assume that *if the methods of transacting business before national advertising was introduced are compared with the methods in use today, the fact that improvements have followed the introduction of advertising proves conclusively that the national advertising was the cause of the improvements.* Because our present progress in business has come after the introduction of national advertising it does not necessarily follow that it was the consequence of the national advertising.

"Post hoc, ergo propter hoc" is bad logic when little care is taken to be sure of the correct relationship of what is claimed to be cause and effect.

To be sure of the correct relationship of national advertising to modern business conditions it is therefore necessary to first examine such matters as our general interest in prosperity, the operation of the competitive system, the factory system of production, the classic system of distribution, and finally, the present chaotic and costly methods of distributing merchandise.

What we call prosperity is a condition so complex that a definition that would cover all aspects of it would be too broad for purposes of argument. If for the sake of clearness in thinking we limit the word to one phrase of its general meaning, *prosperity may be defined as a condition of trade in which the buying-power of the consumers is sufficient to absorb the productive capacity of producers at a profit.*

It is well worth while considering this question of prosperity carefully for unless it be conceded that it is to the best interest of business that prosperity as a whole prevail, rather than an exceptional "prosperity" among successful national advertisers, the whole structure of this arguement falls to the ground.

LIMITATIONS OF BUYING POWER

What I have called buying-power in the foregoing definition of prosperity is dependent upon the earnings of the consumers of the nation.

In using the word earnings I am not confining the term merely to wages and salaries. A merchant's profits from his business are just as truly his earnings as the salary which he may regularly draw. It is out of both salary and profits that he spends for consumption. If he maintains the capital invested in his business intact, he does not, of course, spend for consumption in excess of his salary and profits.

A farmer may not draw a cent in the form of wages or salary. What he has left over after he sells his crops and has paid all his expenses, represents his earnings and it is from his earnings only that he can safely spend for personal consumption.

In the jargon of political economists, I am applying the word earnings to what they classify as wages when earned by labor, as interest when earned by capital, as rent when earned by land, and as profit when earned by business management and enterprise.

The consumer's buying-power is limited by his earning ability and the strength of his savings instinct.

He may develop, or have stirred in him, new wants, strong enough to make him work harder in order to earn more, but he cannot at any given time honestly spend more than he earns, no matter how complicated his desires may become.

What he desires to save, what he invests and thus adds to the capital of the commonwealth, sets a first limit upon what the consumer contributes to the total buying-power of the community.

What he earns sets a final limit on his contribution to buying-power.

The strength of the consumer's savings instinct, it is obvious, determines his willingness to spend. But the strength of this instinct is, so to speak, in inverse proportions to the strength of his desire to consume. Here he is vulnerable to the attack of the national advertiser.

No expenditure on the part of national advertisers in creating in him new wants can increase the amount of his earnings of any given time. He cannot lift himself up by his boot-straps.

But his "will to save" is elastic. The national advertisers can, if only their advertising be persuasive enough, induce him to wipe out his "savings" margin.

To the extent to which the savings instinct is wiped out, buying-power is temporarily increased.

But no good or wise citizen will urge that prosperity be increased temporarily by wiping out the public's instinct to accumulate savings. A hectic prosperity might, indeed, be created by urging every consumer to transfer their savings and investments into consumption purchases, but it would be short lived indeed.

UNEMPLOYMENT AND BUYING-POWER

If it be conceded that it is the best interest of business not to wipe out the savings margin of consumers, then it is obvious that good times or bad times are caused by the fluctuations in the earnings of the consumers of the country and cannot be effected by "high pressure" attacks upon saving.

When, for any reason, a considerable part of the consumers of the nation are without earnings, the buying-power of the community is destroyed to the extent to which they are without earnings.

Earnings may be withheld or limited in any one, or any combination of three general ways: by unemployment; by underpayment, either of labor or of capital, and by business losses.

It is axiomatic that whenever the earnings of any group of consumers disappear as a result of unemployment, their contribution to buying-power vanishes from the market.

Unemployment, whether caused by strikes, by fires, by business failures, is always bad for business.

Given a condition of severe unemployment and prosperity is replaced by hard times.

UNDERPAYMENT AND BUYING-POWER

Unemployment, however, has a further disadvantage in that it is generally followed by the underpayment of labor. Unemployment creates a surplus of job-seekers. Those who are employed during such a period are apt to be underpaid because of the willingness of those out of work to take their places for lower wages. While some individual employers of labor, and sometimes certain industries, may profit by such a state of the labor market, the effect upon business as a whole is bad, since those who receive a mere wage of subsistence can contribute very little to the buying-power of the market.

Naturally the manufacturers who cater to the demands of communities of consumers who are underpaid find business dull. The retailers through whom they sell their products to these consumers, reduce their buying until such a time as wages increase and the buying-power in their communities is restored.

It is not quite so obvious that the underpayment of capital, that the underpayment of those whose earnings are not necessarily in the form of wages or salaries, has an almost equally injurious effect upon buying-power as has the underpayment of labor.

If the farmers of the nation, for instance, are underpaid, as they are at the present time, that obviously restricts their contribution to buying-power. To the extent to which they are underpaid the manufacturers, who produce goods which farmers need or desire, fail in selling their products.

The earnings of the farming community is dependent on the prices obtained for its products. Underpayment is therefore shown by the figures of the Department of Agriculture giving the average prices received by producers of farm products on November 1, 1922 in comparison with those of the same date in the ten previous years. The prices are the average of these in reports of county crop reporters "weighted according to the relative importance of county and State." Fifteen leading products are included in the list. During the war period, everything showed an abnormal advance, as was to be expected. The shrinkage since has, however, not brought prices back to the pre-war ones.

Commodity:	*1922*	*1913*	*Increase*	*Decrease*
Wheat, bushel	$0.978	$0.77	$0.208	....
Corn, bushel	0.629	0.707	....	$0.078

Commodity	*1922*	*1913*	*Increase*	*Decrease*
Oats, bushel	0.382	0.379	0.003	....
Barley, bushel	0.516	0.547	....	0.031
Rye, bushel	0.672	0.632	0.04	....
Buckwheat, bushel	0.803	0.755	0.048	....
Potatoes, bushel	0.628	0.696	....	0.068
Sweet potatoes, bushel ...	0.807	0.757	0.05	....
Flaxseed, bushel	2.107	1.187	0.92	....
Apples, bushel	0.985	0.90	0.085	....
Hay, ton	10.96	11.51	....	0.55
Cotton, pound	0.224	0.13	0.094	....
Butter, pound	0.385	0.282	0.103	....
Eggs, dozen	0.376	0.274	0.102	....
Chickens, pound	0.185	0.121	0.064	....

Decreases in prices are shown in four of the fifteen commodities listed. But one of these is corn, which is chief among cereals, and another is potatoes, which is the leader among vegetables. Aside from these actual decreases, however, what increases in price are shown are much below the increases in the values of farm properties, of tools, of fertilizers, of clothing, and all other articles purchased by farmers. This is the cause of the discontent manifested by farmers, and it accounts both for their objections to price advances and their inability to buy the productive capacity of the factories that cater to their wants.

BUSINESS LOSSES AND BUYING-POWER

That business losses, when sufficiently widespread, have a disastrous effect upon prosperity is well known.

What we call "acts of God," such as floods, fires, epidemics, crop failures, and what might be called "acts of mankind," such as wars, strikes, failures and bankruptcies, destroy prosperity, not merely because they cause unemployment, but very largely because the destruction of capital in these catastrophies naturally reduces the consumption spending of those who suffered the losses.

If a merchant suffers a business loss in a fire, he will probably reduce the amount of money he draws from his business for his own use until he has replaced the amount of capital he lost. This is in its effect upon buying-power precisely the same as if a salary earner had made an investment in a corporation which failed, and then determined to cut down his consumption expenditures while he again saves from his earnings to make up his loss.

With buying-power reduced, manufacturers find business greatly reduced in volume or completely at a standstill. If factories continue operations at full capacity, the markets are soon glutted, and prices tend to drop below the cost of production in many factories. The factories with low production costs are apt to operate on part time only, while those with high production costs must close down completely. Even a small break in prices makes it impossible to operate a high-production-cost factory profitably.

A condition of prosperity is of double importance to any manufacturer whose cost of production is high because of labor conditions in his factory, his location, or the cost of his raw materials. So long as business is good, demand is good and prices are apt to be sufficiently high to enable him to operate profitably. The moment business becomes dull, he may have to "quit," even though his low-producing-cost competitiors continue to operate.

That prosperity is dependent upon buying-power; that buying-power is dependent upon consumer earnings, and that the earnings of consumers is dependent upon the state of unemployment, of underpayment of labor or of capital and of business losses involving capital destruction, is now evident. If we now give a little further consideration to the farm situation which I used to illustrate the effect of underpayment upon buying power, it will show that *precisely the same reduction in buying-power would develop if, instead of the farmers' earnings being too low, the prices asked for the goods needed were too high.*

III

CONSUMER PRICES AND BUYING-POWER

"Roughly speaking," said Theodore H. Price in an article in the DAILY NEWS RECORD, "it is probable that in so far as the industrial classes are concerned, their purchasing power and the cost of what they buy is closely equated, but this is not true of the farmers or of the clerical workers, and it is from one or both of these groups that we shall probably hear the first effective protest against the rise in the cost of living now in progress. For it the careful merchant should be on the alert. The 'overall parade' that every one ridiculed was the prelude to the 'buyers' strike' that commenced nearly three years ago and it may be that something equally trivial will be the signal for the next recessional of what we call prosperity."

In this pertinent paragraph, a mere observation upon passing events, Mr. Price takes for granted the whole of an argument which I have tried to set forth in full logical sequence.

From Mr. Price's statement one may fairly assume—first, that when the earnings of any one considerable class of consumers is fixed, a rise in the prices of goods to consumers tends to reduce buying-power.

Secondly, that any considerable lessening of buying-power results in a recessional of prosperity.

Thirdly, that prosperity is really dependent on the equation of the earnings of consumers and the prices which they have to pay for what they buy.

Does it not logically follow from this that, just as an inequality in the earnings of the various classes of consumers tends to destroy prosperity, any excessive profit-taking by any particular class of producers would have the same effect? This is the question with which we are here concerned.

If all prices rose uniformly, as they should in the case of inflation pure and simple, it would not make a particle of difference in buying-power. If the farmer gets double prices for his products, he can pay twice as much for whatever he buys. Prices, indeed, are doubled, but the commodities are bought and sold just as freely as before.

What causes the destruction of buying-power is the unequal rise of prices, or to state this in another way, the profiting of one class of sellers at the expense of all the buyers of the community.

The difference between these two injurious effects upon prosperity; between the injury caused by too low earnings and the injury caused by too high prices, can be best shown in three tables.

The first table illustrates what happens when the contribution to buying-power by one class of consumers is reduced by insufficient earnings:

TABLE I. TOO LOW EARNINGS

(The figures in the table represent arbitrary percentages of the normal earnings of the consumers, and of normal prices by the producers. The normal figure is 100 per cent.)

Consumer's Earnings		*Producer's Prices*	
Farmers	50	Food	100
Clerks	100	Clothing	100
Weavers	100	Drugs	100
Lawyers	100	Fuel	100
Doctors	100	Transportation	100
All other consumers	100	All other producers	100
	550		600

It is apparent that with farmers earning 50 per cent. less than normal, the buying-power of the consumers is only 550 per cent. The producers, those who have to sell to the consumers, in trying to dispose of 600 per cent. of products, soon find themselves cutting each other's prices in an effort to get the business. The lack of demand for their goods, and the losses caused them by an over-supply of their products, soon shatters that delicate affair which we call prosperity, and business is "dull" if the disparity between demand and supply is little, while if the disparity is large, we may have what none of us want, "hard times."

In this second table it is apparent that precisely the same condition develops if one group of producers is able to secure excessive prices for its products.

TABLE II. TOO HIGH PRICES

(The figures in the table represent arbitrary percentages of the normal earnings of the consumers, and of normal prices by the producers. The normal figure is 100 per cent.)

Consumer's Earnings		*Producer's prices*	
Farmers	50	Food	90
Clerks	100	Clothing	90
Weavers	100	Drugs	90
Lawyers	100	Fuel	90
Doctors	100	Transportation	150
All other consumers	100	All other producers	90
	550		600

With transportation securing an abnormally high price for its product and operating on high margins for profit, isn't it apparent that substantially the same demoralization would develop in business as in the first case we charted? To the extent to which the consumers were either forced or induced to buy of the producing group which is operating on an exorbitant margin for profit, to that extent they would reduce their consumption of the goods made by all the other producers. Not only would the consumers buy less of all the other products, but the makers of all the other products would find themselves selling in a market in which the cards, so to speak, had been "stacked" against them. Selling in such a market, if the condition is sharp enough, would soon result in market prices on their products at or below the cost of production. High-production-cost factories then have to close down, unemployment develops, and the Blue Bird of prosperity leaves for more pleasant regions.

If we grant, for the sake of argument, the claim of the proponents of national advertising, that national advertisers are able to enjoy greater margins of profit than those producers who do not advertise nationally, we get the following:

TABLE III. EFFECT OF NATIONAL ADVERTISING

(The figures in the table represent arbitrary percentages of the normal earnings of the consumers, and of normal prices by the producers. The normal figure is 100 per cent.)

Consumer's Earnings		*Producer's Prices*	
Farmers	50	Advertisers of Food	150
Clerks	100	Other Food Producers	100
Weavers	100	Advertisers of Clothing	150
Lawyers	100	Other Clothing Producers	100
Doctors	100	All other producers	100
All other consumers	100		
	550		600

The operation of the economic law which we have been trying to trace may seem more obscure in this table than in the previous ones, but the net result is exactly the same. The firms who are successful national advertisers and who operate on very large margins for profit, get the biggest share of what the consumers can spend, while those who do not advertise nationally have to fight for what remains of buying-power, with all the resulting disadvantages of intensified competition in meeting a circumscribed demand.

With such a state of affairs, and this is the state of affairs toward which national advertisers are continually working, not only do the non-national advertisers operate under a handicap, but the consumers tend to get less for their money.

It is, of course, a question of fact whether the national advertisers do actually take in the profits which they cannot be said to make. That many of them do is very well known. Why some of them fail to do so, and why in some lines it is more difficult to get outside of competition through national advertising, we shall consider later.

The national advertiser who takes a dollar's worth of some cereal and puffs, shreds, or flakes it; packs it in attractive cartons; spends fortunes in advertising it, and then sells it to the consumer for forty-eight times the cost of the original grain, operates on an enormous margin for profit, but he cannot be said to "make" anything that justifies him in the taking of that profit.

There is a difference between "taking" a profit and "making" a profit.

A friend of mine impressed the difference upon me with a vivid illustration. He saw a great husky footman in Central Park exercising a couple of lap dogs which he led around at the end of a chain. "That man," he thought to himself, "takes the $3 a day he is paid, but he certainly doesn't make $3 worth of anything."

The consumer who buys nationally advertised goods may not know that he is being influenced from thousands of advertisements in newspapers, billboards, and magazines to direct buying-power toward those products which enable manufacturers to "take" excess profits and away from those manufacturers who "make" the reasonable profits they earn, but he nevertheless contributes with every dollar he spends in that way his little mite toward upsetting the equation upon which general prosperity depends.

Business, under our economic system, may continue in spite of an enormous number of such drags upon buying-power. But prosperity is undoubtedly subject to strain by practices which, though unable to produce actual "hard times," may yet render hazardous the profits of a considerable number of businesses.

Even though we overlook ethical considerations (the question of what the consumer gets for his money), we cannot overlook the economic question involved in the excessive margins for profit upon which national advertisers operate.

We must determine whether the margins for profit of national advertisers are actually produced in an economic sense, or whether they are merely "taken" from the public either by inducing consumers to buy at prices that are too high or by doing virtually the same thing in withholding from the public the benefits of lower costs of production. We must determine whether the practices and necessities of the national advertisers reduce the earnings of the wholesalers and retailers who distribute their goods. We must determine whether the growing habit of buying nationally advertised goods does not restrict the buying-power of the consumers.

Upon the answer to these questions depends a decision as to whether national advertising is good for business as a whole, or whether it is good only for those manufacturers who happen to make a success of their national advertising campaigns.

IV

COMPETITION

"All business men," said Edward A. Filene, president of Wm. Filene's Sons Co., Boston, "seek either to get out of the way of competition, or to get above competition."

Getting above competition, Mr. Filene explained, helps the public. If a business man gets above competition by selling goods of the same quality at less price, or a better quality of goods at the same price, he performs a public service.

But if a business man succeeds in getting out of the way of competition, then he can sell the same goods at a higher price or give a poorer quality or a smaller quantity of the goods and yet secure the same price.

A manufacturer gets above competition only by making a better product or making it more efficiently than his competitors.

He gets outside of competition when he possesses some advantage in selling which has nothing to do with his ability as a producer. A patent, a tariff duty, a trademark made valuable by advertising, are such advantages. The possession of such an advantage when it comes to marketing his products enables its owner to get prices and "take" profits for which he renders no compensating contribution to the production of wealth.

Fixing prices under the competitive system is really a system of regulating wages, profits, rent and interest. When competition operates normally, it tends to distribute earnings in accordance with what each contributes to the production of wealth.

Of course the competitive system does not now operate and never has operated in an absolutely normal manner. Just as the average human eye is an "abnormal" eye, being either better or poorer than the normal eye, so the average purchase and sale is consummated in a market that is never entirely competitive, but subject to all sorts of trade restrictions and regulations. If competition were to be made absolutely free, it would be necessary not merely to abolish all ordinary trade restrictions, including trademarks, licenses, patents, franchises, tariffs, but also all present hindrances to access to natural resources. With competition absolutely free, the basis of all transactions in the labor markets, the money markets, the stock markets would tend to levels that would distribute the income of society to each factor in production exactly in accordance with what each contributes to the work of supplying the needs and desires of society.

TRADE RESTRICTIONS AND PROSPERITY

Every restriction upon competition must be very carefully considered by business men, not merely because the restrictions may affect their individual businesses directly, but because the restrictions may affect the buying-power of some considerable part of the consumers upon whom they may depend for their sales. If the trade restrictions are far-reaching enough, they may seriously check the condition of prosperity in which every business man has a vital interest. Confronted with a tendency toward smaller buying-power on the part of consumers, far-sighted business men will consider what alternatives to strive for, and if none can be developed, to set about putting their houses in order for the ensuing period of dull times.

Being myself a pronounced individualist, I am an advocate of the removal of every trade restriction which cannot be justified by important public policies. The ultimate effect of every trade restriction is toward collectivism or monoply. I therefore feel that any tendency to fix wages, profits, interest, rent arbitrarily and outside the "higgling of the market" in which supply and demand operate freely is a tendency that is ultimately against the general welfare.

Whatever the evils and defects of competition, in the long run, competition itself tends to correct them. Unless we are to abandon our sturdy belief in every American's ability to hold his own in a fair field, we must strive for business practices and conditions which give full scope to the action of fair competition.

Competition, whenever it is free, establishes prices absolutely in accordance with the operation of the law of supply and demand.

But it does much more than this.

COMPETITION AS A DISTRIBUTOR OF PROGRESS

The past century has been marked by a prodigious increase in our wealth-producing power. The utilization of steam and electricity, the introduction of improved process and automatic machinery, the minute sub-division of labor, the grander scale of production, the wonderful improvements in methods of transportation, have reduced the cost of producing most commodities to fractional parts of their cost when hand-made.

Competition tends to give to the public the benefit of every improvement in the process of production and distribution.

If a manufacturer develops a superior method of production (it may be by using automatic machinery or by more efficiently employing his labor), he can greatly increase his business by sharing his lower production costs with his customers. He makes additional sales, because he can quote lower prices and give better values.

But as soon as his competitors develop similar methods of reducing their costs, they meet the prices of the original manufacturer. There is then a general lowering of the price level of the merchandise which they happen to make.

What is true of manufacturing costs, is also true of selling costs. Competition tends to give the consumer the benefit of any reduction in the cost of selling.

The normal tendency of competition is to lower the price of all commodities just as rapidly as new inventions and new methods of transacting business are developed.

When, for some reason, the price upon any product has not been lowered after there have been great improvements in making it, then some anomalous element has plainly entered into the fixing of the price.

Does national advertising enable the owner of a trademarked or branded article to get out of the way of competition, and, so to speak, defy the ordinary operation of the law of supply and demand in fixing prices?

However sincerely the advocates of national advertising may assert that the object of their advertising is solely to increase sales, it is nevertheless an inescapable consequence of their advertising (if it proves successful), that *the national advertiser acquires the power to ignore the true market value of his branded product and to price it at all that the traffic will bear.*

This is an economic interpretation of what Mr. Filene meant when he spoke of getting "outside of competition."

THE SHIFT FROM "COMPETITION IN VALUES" TO "COMPETITION IN NATIONAL ADVERTISING"

"Advertising whets the edge of competition," said Clarkson A. Collins, Jr., of the Collins Armstrong Co., of New York, in PRINTERS' INK. "The manufacturer who becomes an advertiser, enters, in effect, into a great debate. His opponents are his competitive advertisers. His audience and his judges are the people. *He will win or lose primarily on the strength and clarity of his argument, not on the virtues of his proposition.* To win decisively he must not only present conclusions, but also the facts from which these conclusions are drawn. He must deliver a stronger, more convincing argument than his opponents."

The words in italics in this quotation are mine. This particular statement is an illuminating commentary upon the claim that competition between the nationally advertised articles themselves would offset the effects of each nationally advertised article having been raised outside of ordinary competition.

Even though it be granted, say the proponents of national advertising, that national advertising enables the manufacturer to take advantage of the demand created for his trademarked article and to secure a better price for it than competitors of his who manufacture similar articles, the fact that he has to meet the competition of other national advertisers in the same line prevents him from securing an excessive price for his product.

This would be true if the competition between the national advertisers was really a competition having to do with the relative value of the products they actually make. But as Mr. Collins pointed out, a national advertiser really competes with other national advertisers "primarily on the strength and clarity of his argument, not on the virtues of his proposition."

Competition between two manufacturers, neither of whom makes a systematic attempt to warp the judgment of consumers by taking advantage of their psychological weaknesses, *results in the bulk of the business going to the manufacturer who is able to give the better value.*

Competition between two manufacturers, both of whom wage the battle for business as a matter of influencing the consumer psychologically *results in the bulk of the business going to the one who is the better advertiser.*

In the case of the non-advertising manufacturer, his ability to manufacture efficiently is his most powerful selling aid.

In the case of the national advertiser, his good judgment in selecting his advertising manager and advertising agency—his ability to advertise efficiently—is his most powerful selling aid.

Is there any question as to where the public "gets off" when business shifts from the basis of competition in values to the basis of competition in national advertising?

LOSING SIGHT OF THE GOODS

"Does the buyer of the advertised article get his money's worth?" asks H. W. Barnes, advertising manager of the Russell-Miller Milling Co., of Minneapolis, in PRINTERS' INK. "I prefer to rephrase the subject and say, 'The buyer of a wisely advertised article gets more for his money than the buyer of an unadvertised article The properly advertised article possesses more value than the same article unadvertised or poorly advertised. That is, the advertising invests in the article qualities which add to the satisfaction, and the pleasure and pride of the buyer. Advertising clothes the article with esthetic qualities so effectually that *the actual wood, iron, gold, wool, cotton, or other material is lost sight of* in contemplation of the 'condition' that may be brought about through possession of the commodity. And on this account the advertised article is a 'better buy' than the unadvertised one. The one may fill an important place in your plan of things, contribute its share in your happiness and profit; the other is simply so much inanimate material."

Mr. Barnes assumes that were the same article to be compared before and after it had been "properly" advertised, the mere fact that it had been advertised would have made it more valuable to the customer. By succeeding in persuading purchasers through advertising to attach subjectively a greater value to it, the article itself had become more valuable!

That advertising can and does do this is true. But should the public permit itself to lose sight of the objective reality of what it buys? Is it a good thing that the public should be led to ignore the actual wood, iron, gold, wool, cotton, or material it buys while contemplating the esthetic merits with which a clever adwriter had endowed the merchandise?

A cake of soap remains after all only a cake of soap. No amount of packing, tinting, or perfuming can make a cake of soap a work of art, which the public should buy and pay for as art.

But persuade women that a particular kind of soap contains the same ingredients which Cleopatra used to add to her charms, and they will lose sight of the fact that it is soap which they are buying, and pay any price that may be asked for it with their minds busy "in contemplation of the 'condition' that may be brought about through possession of the commodity."

If what Mr. Barnes says is true, that the advertising of the soap invests the soap with a greater value, does it not logically follow that the more advertising there is put into the soap, the greater is the value with which it is invested? Does it not follow that by inverting the relative importance of the actual qualities of the article in favor of the esthetic addition made by the advertising, that competition between two adververtising manufacturers each of whom sought to out-advertise the other would result in *both* articles taking on greater and greater value?

Once a manufacturer embarks upon national advertising he begins to add to the value of his goods not by making a better article, but by spending a greater sum upon selling the article he is already making.

He competes with other manufacturers in a race to see who can spend the most for advertising.

If he succeeds as a national advertiser, the temptation to increase his advertising appropriation year by year is irresistible. Each year he lifts his product farther and farther outside of the competition of articles similar to his which sell purely upon their merits as merchandise. And year by year he contributes his share to raising the price level of all the articles in his line. What he manages to gain by reducing his production cost by manufacturing on a larger scale, he loses by the increase in his expenditure for advertising.

But so long as he can maintain the consumer demand for his trade mark, or induce the distributors to believe that he has established such a demand, he is individually better off not merely because of the better prices which he can induce the ultimate consumer to pay for his trade-marked article but *because of his ability to increase his margin for profit by reducing that of the wholesalers and retailers through whom he distributes.*

PRICE COMPETITION, QUALITY COMPETITION, AND VALUE COMPETITION

Certain expressions used in this chapter might well be more clearly defined at this time.

The expressions "price competition," and "quality competition," have a fairly indefinite meaning to most business men.

Charles T. Johnson, president of the Dover Manufacturing Co., of Canal Dover, O., in the course of a statement before a committee of Congress expressed this meaning very clearly. "Beginning in the seventies with the advent of the department store and catalog house and ending with the nineties, we had, in this country, what might be termed a 'price market.' That is, quality was sacrificed to price, and the cry of the retailer as well as the jobber was for something cheap, cheaper, cheapest, and it was a hard matter to get a good article, even though you were willing to pay for it, as the retailers did not dare to carry them for fear they would be called 'high priced.' Beginning in the nineties, there developed what might be called a 'quality market,' and this has made rapid strides. In fact, the major portion of the consuming public now demand quality and does not haggle on price."

Price competition in so far as it relates to manufacturers is the competitive effort to make the cheapest possible article so as to be able to sell it at the lowest possible price.

Quality competition is almost the exact opposite of price competition. In so far as it relates to manufacturers, quality competition is the competitive effort to secure the highest possible price by improving the quality of the article.

The word "price" is used in the one term so as to make price synonymous with poorness in quality. The word "quality" is used in the other term so as to make it a synonym of high quality.

As a matter of fact, the poorest grade of any article has "quality," and the highest grade has a "price."

The policy of "trading up," with which national advertising naturally seeks to indentify itself, is frequently used to create confusion in the minds of buyers about the fact that price and quality are strictly relative.

The only sound basis for buying and for judging the merits of various offerings of the same kind of merchandise is by the comparison of the values offered.

Value represents the relationship of price to quality.

For the purpose of making this clear, let us assume that there are on the market two grades of a certain product; that certain makers of the product make the "A" or higher grade, and the other the "B" or lower grade. It is, of course, impossible to compare the values offered by all the makers of the article by comparing the qualities alone, or the prices alone.

If a certain "A" grade article has 200 points of merit, and sells for $2, and a certain "B" grade article has 100 points of merit and sells for $1, then the values offered by these two makers are the same. Each article is fully worth what the consumer is asked to pay for it.

But if a certain "A" grade article has only 110 points of merit and sells for $2, while the "B" grade article has 100 points of merit and sells for $1, then the "B" grade is the better value.

A business force such as national advertising which leads the public and the merchants who sell to the public to believe that in that instance the "A" grade is a "better buy" merely because it is represented as the "quality" product is a menace to sound business. In nearly every case, national advertising is used to create a public impression that the advertised "A" grade is worth twice as much as the non-advertised "B" grade when as a matter of fact it is not twice as good.

VALUE COMPETITION

Under conditions of free competition, business is a rivalry in value giving, irrespective of whether the tendency of the times is toward a price market or toward a quality market. The enterprising manufacturer under normal competitive conditions seeks to get "above" the competition of his rivals by manufacturing so efficiently that he can offer the best values in the particular grades of goods which he makes.

Value competition may be defined in so far as *it relates to manufacturers as the competitive effort to secure business by offering high values in each grade of goods made.*

It is possible both in a price market and in a quality market to offer poor values. Neither price alone, nor quality alone, are a sufficient measure of the relative desirability of merchandise. Competition in value giving is the only kind of competition upon which business can be conducted in that sound and enduring fashion that results when both buyer and seller receive a "square deal."

Do nationally advertised goods represent better values than goods which are not nationally advertised? Can this question be answered in any way without discussing specific articles? Is it necessary to make "odious comparisons" of qualities and prices to determine whether the price of the nationally advertised articles are relatively too high?

Since the proponents of national advertising find it necessary to maintain that the superiority of nationally advertised articles does not of necessity have anything to do with intrinsic qualities, isn't it possible that many of them do not represent better values? When it is necessary in order to prove the superiority of the advertised article to claim advantages which put in no appearance in a laboratory test of the merchandise itself, there is good ground for suspecting that national advertising may actually reduce the value which a manufacturer can give.

The mere fact that when a manufacturer shifts from competing with other manufacturers in values, to competing with those who are nationally advertising, the shift is followed by a great deal of talk about quality, doesn't lessen the possibility that the public may be getting less in value than before the national advertising entered into the situation.

It doesn't get the same value in an advertised article if it pays a higher price for the same quality; nor if it pays the same price as before, while the cost of making the article has been reduced; nor if it pays an excessive price for a slight change or improvement in the article itself.

MAKING A SALABLE ARTICLE ADVERTISABLE

Artificially created improvements and sometimes sheer fictions are sufficient to make an article, otherwise the same in quality as before, "advertisable." And once an article can be successfully advertised, once the demand for the article can be established through advertising, the question of value is lost sight of both by the public and the distributors.

In a suggestive discussion of how merchandise that is merely salable may be made advertisable,

W. P. Werheim, advertising manager of Pratt & Lambert, Buffalo, N. Y., said: "If the article itself has no exceptionally prominent qualities or values, a scheme frequently can be evolved to make an advertising point of advantage. . . . In these days of modern advertising, we may almost set it down as a general rule that the ordinary known qualities of a product are not sufficient to make it an advertising success. The qualities must be enlarged upon, developed or added to in some unique manner to secure the greatest efficiency of the advertising. I do not mean by this that it pays to do dishonest advertising, but that the advertiser should take advantage of every legitimate means to emphasize the qualities of his product, and thus actually *add value to it.*"

I do not think that there is any question about the fact that if a manufacturer can "put over" a successful national advertising campaign that he can sell his product in spite of the fact that he may give less in value. As to whether national advertisers actually do give poorer values (with the advertising created values ignored), that is something concerning which any man can satisfy himself if he will do as I have often done—go into the stores and compare the values offered on mere merchandise with the values offered on the advertised brands.

The experiment is always illuminating.

V

PRODUCTION, DISTRIBUTION, AND CONSUMPTION

W. W. Stewart, president of the National Merchant Tailors' Association of America, was recently quoted as follows: "Never in the history of the country has the custom made clothing business been on so secure a basis as at the present time. The public is awakening to the value of the custom made garment as opposed to the machine made. From every section of the United States we learn through the association of the increased business of the custom tailor and the return of customers to us who have tried the ready made product."

Today, when the successful management of a factory demands an executive who is no longer a mere manufacturer, but a combination of manufacturer, financier, salesman and advertising man, it is easy to lose sight of a tremendously important fact, that *the future of the factory system of production is dependent upon the factory-made product reaching the consumer at a lower price than* *the consumer can make it himself, or have it made by a craftsman for him.*

If there were good reasons for believing that the factory system of production would drive craft production out of existence at the time it was first introduced early in the 19th century, doesn't it seem reasonable to believe that with the infinitely more efficient methods of production in modern factories it ought to be absolutely impossible for anybody to compete with the factories?

It would surely seem so, and yet we find that craft production is experiencing a revival—the products of the hand loom, the hand forge, and the custom maker are being more and more featured in the press.

In the days of cottage industry and village workshop and the neighborhood sale of product, making was the prime factor in cost, and selling a mere incident.

With the advent of the factories, in the early days of what economists refer to as the industrial revolution, the hand workers were literally starved out of business. The factory made products were sold at fractional parts of prices that formerly prevailed for similar merchandise.

The system of the division of labor, the system of using machinery to lessen the labor needed in making, and of applying steam and electricity as the motive power, led to the conquest by the factories of the making of one commodity after another.

But with the development of the factory system, there was a corresponding development in the system of distribution. So long as production was limited to the quantities which an individual craftsman could turn out with the aid of journey man workers and apprentices, the production of any one shop was too small to require any complex system for distributing the products. In most cases, the products were sold direct to consumers living in the neighborhood of the maker's shop.

But with the multiplication of production which came with the rise of the factories, the system of distribution through various middlemen followed as inevitably as day follows night. The jobber came into his own rapidly, relieving the retailers of the problem of buying from a myriad of factories, and completely relieving the factories of their selling problem. The jobber made it possible for the retailer to buy in small quantities and for the factory to sell in large quantities.

THE ADVERTISING MANUFACTURER

So long as distribution was effected through these channels the factory owner was primarily a production manager, and his success or failure in business depended almost entirely upon his ability to produce efficiently.

This is not true of the manufacturer who is a national advertiser. The advertising manufacturer looks upon production problems as matters of routine. His principal concern is with the advertising and selling of his product, both for the purpose of increasing sales and for the purpose of enlarging the margin for profit on his product. As a result, products are designed and packed so as to enhance their "advertisability," and good-will created by advertising is a bigger asset of many of these factories than machinery and buildings. Naturally their products are sold at prices which yield dividends both upon the good-will and the plant investment.

Isn't there something significant, something which every manufacturer might find worth careful consideration, in two large advertisements which appeared side by side in a recent issue of the NEW YORK TIMES? One was an advertisement of a clothier selling a line of high grade nationally advertised clothing, which featured suits ranging from $50 up. Alongside of it was an advertisement of a custom tailor offering suits from $40 up.

At one time, it was believed that the clothing factories would drive the custom tailors out of existence.

But the tailors, like so many of the survivors of the old system of production, seem to be "coming back."

Those interested in the future prosperity of the factory system of production should never for a moment forget that in many industries the greatest competitor of a factory is not necessarily the other factories making the same product.

It is the ultimate consumer who is potentially the biggest producer of all, and in many lines the consumer is still the biggest of the factory's competitors.

The biggest competitor of the baking industry is the housewife who bakes her own bread.

The biggest competitor of the needle trades is the woman who does her own sewing.

The biggest danger to the factory system is the fact that when prices asked of the consumer on factory made products become high enough, a market is immediately created for machinery and supplies which enable the consumer to produce for himself.

Whenever it becomes stylish to do your cooking and sewing in the home, business will become very dull in several industries.

It was stylish to be an efficient homemaker at one time. There are signs that society is slowly but surely turning from the leadership of the spender to the leadership of the homemaker.

Manufacturers will do well to consider the effect of the prices they ask for their products upon the consumer who wields knitting needles, uses a sewing machine for dressmaking, a steam pressure cooker for canning, learns all the new methods of making things in the home, and is ready to buy a myriad of mechanical devices which will enable her to "roll her own."

PRODUCTION COSTS AND DISTRIBUTION COSTS

During the past fifty years, a period of time which roughly corresponds with the present era of national advertising, there has been a notable decline in the basic cost of producing most commodities. The development of motive power, the invention of automatic machinery, and the progress in industrial processes, have all helped to reduce the cost of making all kinds of products.

The whole world has been explored for the purpose of securing ample and inexpensive supplies of raw materials. Reductions in the cost of raw materials are primarily responsible for the many luxuries of by-gone ages which have become necessaries of modern living.

Manufacturing, transportation and administrative methods have been so perfected during this period that the efficiency of our present machinery for producing all manner of commodities compares with the methods of fifty years ago as the automobile truck compares with the ox-cart.

Why is it, then, that the prices which consumers pay for products have not dropped in proportion to the lower costs of production?

With competition substantially free, the public should have automatically received the benefit of the improvements in the methods of production, either in the form of lower prices for the same quality of merchandise, or better merchandise at the same price.

The public has in some lines entirely failed to secure this benefit, and in others, secured it only in part. Significantly, it has reaped the benefit of improved methods of production mostly on commodities which have been least effected by national advertising.

Naturally with the capacity of consumers to absorb production being reduced in this way, the efforts of manufacturers to dispose of their constantly increasing productive capacities has year by year intensified. There being less and less buying-power to absorb the production, the rivalry to supply what buying-power there may be in the market has became intense to a degree unknown fifty years ago.

The very conditions which intensify the necessity of manufacturers to sell, lead them to ever increased expenditures for distribution and selling.

VI

NATIONAL ADVERTISING AND DISTRIBUTION

Out of every dollar which the consumer pays for the purchase of any article, one part is paid for the actual making of the article itself, and one part for its distribution so that he may buy it when and where he may desire.

The Joint Congressional Committee of Agricultural Inquiry was rather shocked, judging from the tone of its voluminous report on this subject, when it learned that most of the consumer's dollar is paid for distribution.

According to Paul E. Derrick's book, "How to Reduce Selling Costs," distribution absorbs from one-half to three-fifths of what the consumer pays.

According to an investigation of costs of production and distribution made by Walter Sammons and reported in his book "Keeping Up With Rising Costs," the cost of production including the manufacturers' profit (in forty typical factories producing all kinds of merchandise), represented only 41 per cent. of the price which the consumer paid.

In a recent address, Roger W. Babson said: "We have applied all that science and human ingenuity have contributed to production but we have let distribution look out for itself. The result is that our manufacturing cost has been cut to a fraction of what it was fifty years ago, but the percentage cost of distribution is more than it was fifty years ago."

Is there anything surprising in the fact that the general question of distribution has been permitted to shift for himself? Is there any sufficiently strong business interest that is concerned with reducing distribution costs?

It is to the interest of every individual manufacturer to cut production costs; to install new machinery and employ new processes which might enable him to make his product at lower prices than his competitors or at least as low as his most efficient rivals. Low production costs enable him to add to the profits of his business either by increasing his margin for profit, or, by enabling him to sell at lower prices than some of his competitors, to add to his profits by increasing the volume of his sales.

But as to general distribution costs, the average manufacturer is only indirectly concerned.

Instead of its being to the direct interest of any considerable group of individual businesses to reduce distribution costs, it is today to the interest of the advertising industry, one of the most ably managed of all businesses, to increase them.

Only the ultimate consumers are directly interested in reducing distribution costs. And they are now, thanks to the accomplishments of advertising psychologists, like so much clay in the hands of those who have mastered the art of moulding their desires.

But while it is true that only the ultimate consumer is directly interested—indirectly it concerns all business.

Every widespread abnormality in the margins for profit upon which goods are sold is a menace to prosperity.

The future of the factory system of production is involved in the question of whether increases in distribution costs outstrip the manufacturer's ability to reduce production costs.

If we are to progress soundly, with the fewest possible disturbances to normal business conditions, distribution just like production costs should become lower year by year.

The first target, at which the superficial critic who becomes familiar with this condition aims his recommendations, is the "middleman."

Since every retailer, jobber, commission merchant, and broker is in business to secure for himself as large a share of the dollar which the consumer spends as is possible, it is easy to assume that it is the middleman who is responsible for putting height into the high cost of distribution.

But competition among themselves, between retailer and retailer, between wholesaler and wholesaler, renders the middleman powerless to increase any distribution cost arbitrarily. To a great extent they are passive factors with regard to the creation of additional distribution expenses. The prices at which they sell include a margin for their own profit which is usually only a little more than the cost of doing business in their line. Department stores, mail order houses and chain store systems have it is true, introduced far-reaching merchandising inovations, but the extent to which these can be charged for and added to the price which the customer pays is limited by the competition of the smaller middleman.

Distributors as a class have no direct interest in trying to reduce the cost of distribution, because, naturally enough, they are interested in such a matter as the relationship of production costs to distribution costs only in so far as it affects their personal fortunes.

Talk about reducing the cost of doing business, and every business man is very much interested.

Talk about reducing the cost of distribution, and the inarticulate public, instead of showing a business interest in the matter, is apt to look to politicians for help.

Roger W. Babson, in the statement previously quoted, calls attention to the fact that the percentage cost of distribution has been steadily rising; that it is considerably higher today than it was fifty years ago. It is a matter of general knowledge that this is so.

We must seek for the cause in some of the methods of present day distribution which were not employed fifty years ago.

The conclusion of most of the serious attempts to locate the causes of the rise in distribution costs may be classified under two heads either as relating to the efficiency of the distributors, or as relating to the cost of various kinds of "service" which the public of today has come to demand.

To these two factors, I now propose to add, a third factor: *the introduction and great increase in the volume of national advertising.*

ARE DISTRIBUTORS INEFFICENT?

I think that most of what has been written and said concerning the inefficiency of the distributors of the country is based upon fallacious reasoning.

The distributor of today is, if compared to the distributor of fifty years ago, immeasureably more efficient. Not only are his personnel and his methods of doing business much more efficient, but the whole physical mechanism which he uses in selling and handling merchandise reflects all that the times have had to offer in the way of improvement.

That there is still plenty of room for improvement, is very true.

But in spite of this, that distributors as a whole have kept pace, in general efficiency, with most groups in the business world, is beyond the possibility of dispute.

Surely it is not necessary to marshal evidence to prove this. One has only to visualize the retail store of fifty years ago, and the retail store today, to see that it is true. One has only to recall methods of fifty years ago in shipping, billing and accounting to visualize the deliberation with which wholesalers then operated, and the rapidity and dispatch with which they conduct their operations today.

If those who criticize the distributors of today were to compare them with the distributors of yesterday (instead of comparing the present day distributors with some wholely ideal distributors), they would very quickly come to the conclusion that distributors have progressed just as much as have the manufacturers, the railroads, or any other class of businesses.

Exclude the high cost of rendering service in the way of deliveries, returns and shopping comforts, which were not given by the merchants of fifty years ago, and I believe the average distributor's cost of doing business today is not much more than it was at that time.

As to the high cost of serving the present critical public, the situation is different.

The demand for fancy service has undoubtedly added to the cost of distribution.

The public now demands a much wider range of merchandise from which to choose. It picks and chooses among dozens of brands which are, but for the differences in name, practically identical. It demands a delivery service that is, in the case of large stores, free for a hundred miles or more from the store, and that is in the case of neighborhood stores, literally at the beck and call of the housewife's whims. It demands that small stores be accessible—regardless of how this may multiply the number of stores, and it demands luxuries of convenience in the large stores regardless of how this may add to their cost of doing business.

For all this the public pays. It pays for it by an increase in the proportionate part of what is paid for distribution out of every dollar which it spends.

I am not arguing that this should not be so. I am merely pointing out the fact that the demand of the public for better service from the distributors of merchandise—a demand which it is true is largely created by the rivalry of the merchants themselves—is a large factor in causing the rise of the cost of distribution. There is no novelty, of course, in my pointing out that this is so. It has been generally recognized as one of those steps in our progress as a people which have added to the comforts and pleasures of life. Provided it is kept within reasonable bounds—in pace with the increase in the earning power of consumers—it is certainly something for which the public will not hesitate to pay.

THE RISE OF NATIONAL ADVERTISING

There remains now to be considered what part the development of national advertising has played in upsetting the former ratio of production to distribution costs.

Fifty years ago, national advertising can hardly be said to have been in existence.

Advertising, of course, is of ancient lineage. But the particular kind of advertising to which I have applied the term national advertising is a development of comparatively recent times.

By national advertising, or consumer advertising (which is a synonymous term), I mean any kind of advertising by a manufacturer, without regard to the kind of medium he may use, which is addressed to ultimate consumers for the purpose of creating a consumer demand sufficient to force, or at least assist, in inducing retailers to stock the manufacturer's product.

This kind of advertising is not merely a development of the past fifty years; it is, something created by business institutions which are themselves creations of the same period of time. It has been largely created, systematized, and sustained by the advertising agencies and the national magazines.

Originally advertising agencies were space brokers who bought and sold space in lists of newspapers and magazines. So long as the agencies remained space brokers, pure and simple, and advertisers shopped from one to another to buy space as cheaply as possible, they could not serve nor could they secure the confidence of manufacturers. Their gradual metamorphosis into semi-professional agents of the advertiser (though still receiving their pay from the publishers for whom they are supposed to and do "create" business), enabled them slowly but surely to command the respect of the most conservative of business men.

Once they were considered semi-respectable. The character of advertising at that time tended to this suspicion. Before national advertising could come into its own, the impression that advertising was something which could be used only by patent medicine vendors and the cheapest types of businesses had to be removed.

This change in the character of advertising was the work of the national magazines, which eliminated such advertising from their columns so as to make them attractive to responsible manufacturers. National advertising as we know it today is in large part the consequence of this change.

THE INFLUENCE OF THE NATIONAL MAGAZINES

But not only did advertising agencies and advertising men have to evolve from their original environment. So long as there were no dominating national magazines, the work of systematically creating national advertisers lacked vigorous propagandists. The magazines could afford to finance this propaganda and to employ the ablest men they could find for such work because their entire success as business propositions required the conversion of manufacturers to national advertising.

During this period the newspapers did practically nothing to create national advertising. The newspapers fifty years ago looked for support to their political "angels." While the magazines were developing national advertising, the newspapers were freeing themselves from almost complete dependence upon political support by developing local retail advertising. Naturally they looked upon their foreign advertising as just so much "velvet"—clear gain, since they had to have had already secured sufficient local support to keep them going. Under the circumstances it is not surprising that they made no great efforts to convert manufacturers to consumer advertising. They were content to get what they could of the advertising which was created by the agencies and the magazines. They were not dependent upon it. No one newspaper could expect to receive a sufficient volume of any one advertiser's appropriation to justify the employment of a large force of able men who devoted themselves exclusively to creating national advertisers.

It is only in comparatively recent years that even their associations may be said to have seriously undertaken to "sell" newspaper advertising to the national advertisers. While it is possible that more national advertising in dollars and cents goes into the newspapers than the magazines, this is not due to the conscious creative work of the newspapers so much as to their sheer numbers in comparison with the magazines.

Unquestionably our national advertisers are the creations of our advertising agencies and our national magazines.

THE INFLUENCE OF NATIONAL ADVERTISING UPON DISTRIBUTION

It is inconceivable that so important a business force could be injected into distribution without profoundly influencing the relationship of distribution to production costs.

As we have seen, this growth has taken place in the same period of time which has seen the percentage rise in distribution costs.

If graphic curves were plotted, showing the rise year by year in the percentage of distribution costs, and the rise year by year in the circulation of the national mediums, the volume of business placed by the advertising agencies, and the growth in number and importance of manufacturers who advertised to the consumer, it would be interesting to see how closely the curves approximated one another. Unfortunately, the statistics to plot such curves are not available.

But since there is sufficient independent evidence of these relationships; since there is plenty of corroborating evidence, there is good reason for believing that the simultaneous growth of national advertising and rise in distribution costs is more than a mere coincidence.

VII

PRODUCTION AND DISTRIBUTION

If the word production be confined to those operations which are involved in actually making an article or commodity, then the cost of production may be said to consist of the cost of raw materials (including transportation to the factory), the cost of labor, and the cost of the overhead directly applicable to manufacturing only.

Whether a manufacturer's profits are truly earned upon his investment for production or upon his investment for selling and advertising depends, of course, upon the extent to which he is a national advertiser rather than a manufacturer.

Until we determine how a manufacturer's profits are earned, they should not be considered production costs. Manufacturers' profits must be allocated to distribution or production in the proportion in which they are traceable to one or the other.

The profits of manufacturers who do not advertise are production profits pure and simple.

But a large part of the profits of manufacturers who are national advertisers may really be dividends upon their investments in goodwill. They are apt to consist mostly of profits upon their investments for advertising and only in part profits upon their investments for production.

Manufacturer's profits will therefore be considered in these articles as a separate factor, and the term production costs will be confined to the cost of actually making articles.

We can now lay down the principle that the cost of distribution comprises every cost involved in selling goods to ultimate consumers over and above the production cost.

It is essential to clearly see all distribution costs (which include the wholesaling and retailing charges and profits), as one whole. Unless they are considered as an entity, it is impossible to determine whether present prices are high because of too high production costs or too high distribution costs.

It is certain to cause confused thinking to assume that the production cost is the price at which the manufacturers sell their products, for obviously this price includes both manufacturers' cost of selling and profits. And under the head of the manufacturers' cost of selling comes in that great inflater of distribution costs—national advertising.

Even in the case of manufacturers whose selling expense is limited to commissions to brokers, (whose selling expenses are therefore very small percentages of their selling price), the mere fact that the prices at which they sell may be substantially the same as their production costs does not justify any deviation from what is not merely logical but strictly in accordance with fact.

In the case of manufacturers who are national advertisers and who distribute only through wholesalers, the price at which they sell their products to the wholesalers already includes a considerable part of the final distribution cost. The price already includes not merely their profits, but their expenses for their salesmen and their supervision, and their total expenditure for advertising.

National advertisers who sell direct to retailers, and eliminate the wholesalers, include in their price to the retailers all their production costs and their profits and all the distribution costs of advertising, wholesaling and selling.

Finally, the price at which manufacturers who distribute through their own retail stores direct to the consumer eliminates no element in distribution costs. It embraces their production costs and their profits, plus the distribution costs of advertising, wholesaling and retailing.

It is obvious, therefore, that the manufacturers who eliminate jobbers, or both jobbers and

TABLE I.

(Production and Distribution Costs of Products Sold Through Wholesalers.)

Item	Cost of Production / Cost of Distribution	Comprises
Raw materials plus transportation.	Cost of Production.	Manufacturers' Price.
Labor.	Cost of Production.	Manufacturers' Price.
Manufacturing overhead.	Cost of Production.	Manufacturers' Price.
Profit upon production.	Cost of Production.	Manufacturers' Price.
Profit upon selling.	Cost of Distribution.	Manufacturers' Price.
Cost of selling.	Cost of Distribution.	Manufacturers' Price.
Cost of national advertising, if any.	Cost of Distribution.	Manufacturers' Price.
Cost of goods plus transportation.	Cost of Distribution.	Wholesalers' Price.
Expense of doing business.	Cost of Distribution.	Wholesalers' Price.
Cost to sell.	Cost of Distribution.	Wholesalers' Price.
Wholesaling profit.	Cost of Distribution.	Wholesalers' Price.
Cost of goods plus transportation.	Cost of Distribution.	Retailers' Price.
Expense of doing business.	Cost of Distribution.	Retailers' Price.
Cost to sell.	Cost of Distribution.	Retailers' Price.
Retailing profit.	Cost of Distribution.	Retailers' Price.

TABLE II.

(Production and Distribution Costs When Manufacturers Sell Direct to Retailers.)

Item	Cost of Production / Cost of Distribution	Comprises
Raw materials plus transportation.	Cost of Production.	Manufacturers' Price.
Labor.	Cost of Production.	Manufacturers' Price.
Manufacturing overhead.	Cost of Production.	Manufacturers' Price.
Profit upon production.	Cost of Production.	Manufacturers' Price.
Profit upon selling.	Cost of Distribution.	Manufacturers' Price.
Cost of selling.	Cost of Distribution.	Manufacturers' Price.
Cost of national advertising, if any.	Cost of Distribution.	Manufacturers' Price.
Cost of goods plus transportation.	Cost of Distribution.	Manufacturers' Price.
Expense of doing business.	Cost of Distribution.	Manufacturers' Price.
Cost to sell.	Cost of Distribution.	Manufacturers' Price.
Wholesaling profit.	Cost of Distribution.	Manufacturers' Price.
Cost of goods plus transportation.	Cost of Distribution.	Retailers' Price.
Expense of doing business.	Cost of Distribution.	Retailers' Price.
Cost to sell.	Cost of Distribution.	Retailers' Price.
Retailing profit.	Cost of Distribution.	Retailers' Price.

TABLE III.

(Production and Distribution Costs When Manufacturers Sell Direct to Consumers.)

Item	Cost of Production / Cost of Distribution	Comprises
Raw materials plus transportation.	Cost of Production.	Manufacturers' Price.
Labor.	Cost of Production.	Manufacturers' Price.
Manufacturing overhead.	Cost of Production.	Manufacturers' Price.
Profit upon production.	Cost of Production.	Manufacturers' Price.
Profit upon selling.	Cost of Distribution.	Manufacturers' Price.
Cost of selling.	Cost of Distribution.	Manufacturers' Price.
Cost of national advertising, if any.	Cost of Distribution.	Manufacturers' Price.
Cost of goods plus transportation.	Cost of Distribution.	Manufacturers' Price.
Expense of doing business.	Cost of Distribution.	Manufacturers' Price.
Cost to sell.	Cost of Distribution.	Manufacturers' Price.
Wholesaling profit.	Cost of Distribution.	Manufacturers' Price.
Cost of goods plus transportation.	Cost of Distribution.	Manufacturers' Price.
Expense of doing business.	Cost of Distribution.	Manufacturers' Price.
Cost to sell.	Cost of Distribution.	Manufacturers' Price.
Retailing profit.	Cost of Distribution.	Manufacturers' Price.

These three tables show clearly that the elements which comprise the cost of production and the cost of distribution remain the same, irrespective of the channel through which the manufacturer sells. Note that while the two elements of cost as shown by the brackets at the top of each table are unchanged, those at the bottom of the tables change with each change in the manufacturer's method of marketing.

retailers, shift the distribution costs but do not eliminate them. Whether the ultimate price paid by the consumers for the products of manufacturers who "eliminate" middlemen are higher or lower than they would be if they were distributed through regular trade channels depends upon the comparative efficiency of their distribution systems and the regular channels they would otherwise have used. Of course such manufacturers figure that, even though their own distribution systems cost more, the higher cost is offset by the complete control which they have over their own products, the certainty of their outlets, and the combining of the profits of manufacturing, wholesaling and retailing in their own hands.

Perhaps one of the chief causes for our failure to appreciate the economic consequences of rising distribution costs has been the general confusion concerning the distinction between the margin *for* profit and the margin *of* profit.

So long as the margin *of* profit—the net profit—made by each factor in distribution was reasonable, business has assumed that it might safely ignore the consequences of a spreading margin *for* profit.

Defining these two terms will make it clear that it is not manufacturers', wholesalers', or retailers' net profits that are responsible for the alarming rise in distributing costs, but the ever increasing margin for profit in its entirety.

"Margin of profit," according to George Frank Lord in PRINTERS' INK, "is the net percentage or portion of the selling price of an article that accrues to the seller after all his selling expense has been deducted."

"Margin for profit is the gross difference between the selling price and the cost price."

MARGIN FOR PROFIT: 96.2 PER CENT

The cost of producing a well known nationally advertised article was 19 cents. The article cost the manufacturer, after adding the selling expense, and overhead, approximately $2.25. It was sold by the manufacturer to jobbers in large quantities at $3.10 each. In smaller quantities the jobber paid a higher price as the discount was 5 per cent. less.

The jobbers sold it to the retailers at $3.75.

The retailers sold it to the public at $5.00.

In the case of this article, the total margin for profit (from manufacturer to consumer) was $4.81.

Except for the legitimate but naturally small manufacturing profit on an article costing 19 cents to produce, the whole margin for profit—96.2 per cent.—represented distribution.

The margin for profit of the retailer was $1.25.

The margin for profit of the wholesaler was 65 cents.

The margin for profit of the manufacturer was over $2.91.

Before the margin of profit of each factor in distribution can be determined, the cost of doing business and the cost of selling would have to be deducted from their margins for profit.

In the case of this particular manufacturer, the selling expense and overhead, including advertising, charged against each article, was $2.06. The manufacturer's net profit on each article was therefore 85 cents.

DISTRIBUTION COST 80 PER CENT: INSUFFICIENT, PRICE TO CONSUMER RAISED 50 PER CENT

Let us take another case: The cost of producing this article was about 20 cents.

The manufacturer sold it to jobbers for about 60 cents.

The jobbers sold it to retailers for about 75 cents.

The retailers sold it to the public for $1.

The margin for profit of the retailer was 25 cents.

The margin for profit of the jobber was 15 cents.

The margin for profit of the manufacturer was about 35 cents.

As it cost the manufacturer from 25 to 30 cents to advertise and sell each article, his margin of profit was 5 to 10 cents on each article.

This nationally advertised article no longer sells for a dollar. *National advertising has made it possible to raise the price.*

In spite of all the improvements in the processes of manufacturing during the period since the original price was established, its price has not been reduced.

In spite of a continually larger "quantity production" of the article, its price has NOT been reduced.

Here is a national advertising success that has been the "mold of form and the glass of fashion" for innumerable ambitious manufacturers. Either because of the advertising or in spite of it, the manufacturer has had to raise the price to the the consumer fifty per cent.!

Isn't it obvious in these two cases—typical of hundreds which might be cited, and true to a greater or lesser degree of nearly all successfully nationally advertised articles—that in order to increase his margin of profit, the manufacturer has enormously increased the margin for profit upon the article?

In any study of the relation of distribution costs to production costs, can a business force which enables a manufacturer to thus defy the ordinary effects of competition fail to come under justifiable suspicion?

When in addition this force enables the manufacturer to dictate the conditions under which wholesalers and retailers shall sell their product, (and in many cases abandon the ordinary channels of distribution and elimiminate either one or both in disposing of their product), *it gives to the manufacturer the power of increasing the ratio of distribution to production costs without considering anything except his ability to induce the public to pay the price he fixes for his product.*

It was previously shown that the elements comprised in production and distribution remain the same without regard to whether the manufacturer sells direct to the consumer, direct to the retailer, or exclusively to the jobber.

Business methods today are basically the same as fifty years ago. They will remain the same so long as the competitive system of production and distribution prevails.

If business methods are fundamentally no different from the time when the classic system of distribution prevailed in every line of merchandising, why is it that so many manufacturers have adopted distributing systems of their own which cut across the established channels of trading?

Study of various lines of merchandise will show that the national advertisers in each line eliminate the jobbing of their products or both the jobbing and retailing, whenever in their opinion that makes it easier for them to maintain the margin for profit which they need in order to profitably advertise their product. The national advertiser "cuts out" the jobber and puts on his own force of salesmen whenever doing so in his judgment enables him to more securely safeguard his investment in his brand or trademark. The same motive determines his decision in continuing distribution through jobbers. It guides him in establishing his own retail stores. It dominates his whole work in selling.

Unfortunately the fact that some of the most powerful and influential manufacturers of the country have thus undermined the regular channels of distribution, has lessened the value of these channels for all manufacturers. The change brought about by national advertisers in the wholesaling machinery has forced all manufacturers in self-protection to adopt equally costly methods of selling. It has tended to break down the special functions of the various factors in distribution. Today jobbers sell products packed or made under private brands to protect the lines they offer to their customers, and retailers do the same thing to meet the conditions which the demand for nationally advertised products impose upon them.

VIII

NATIONAL ADVERTISING AND THE CHAOS IN DISTRIBUTION

In the classic system of distribution, if it may be called by so dignified a title, goods moved from manufacturers through wholesalers and retailers to the public.

Up to about 1890, products of all kinds were distributed almost wholly through these well established and time tested channels.

The service which each factor in distribution performed in the economic life of the nation was clearly understood by the general public, and the mutual relationship was recognized as something to be safeguarded in the general interest by manufacturers, wholesalers, and retailers. This classic system may be likened to an arch; the manufacturers formed one pillar of the arch; the retailers formed the other pillar, and in between, the keystone of the arch, was the jobber.

The jobber was undoubtedly in possession of the strategic position.

Of the various forces and influences which evolved this mechanism for distribution, it is well worth while identifying some of those which still operate. If they tended at that time to develop distribution by the classic system, it ought to be worth considering whether the newer forces which have neutralized their strength, deserve the support which they are reciving.

Many forces tended to make the wholesaler the chief factor in distribution.

One was financial. It was natural that capital should have sought to finance both manufacturing and retailing through the wholesalers. Perhaps the principal reason was that in those days the most desirable security for loans was that in the possession of the wholesalers.

Factories were undesirable from a credit standpoint because so large a proportion of their assets consisted of fixed capital. The risk of obsolescence and depreciation added to the difficulty of liquidating fixed capital in case of failure made factories unattractive to bankers. On the other hand, the quick assets on the balance sheet of the average factory, accounts receivable, finished goods, partly finished goods, and raw materials, varied with the seasons. The wholesalers who could dispose of the goods, rather than the bankers, were logically the men to finance their production.

The retailers in those days occupied a financial situation from a credit standpoint like that of the small stores of today. Their stocks of merchandise consisted of small lots and assortments, in such small quantities of each item that in the case of a failure, it was best to dispose of the stock at a sacrifice rather than to spend much effort in trying to sell them at cost.

The story in the case of the wholesalers was altogether different. Fixtures, a negligible item, represented about all that they had in the way of fixed capital. Their quick assets consisted of large quantities of merchandise for which there was presumably a ready market, and above all, of accounts receivable and notes receivable from retailers and factories. The financial judgment of those days turned to the jobber as the natural medium through which capital could finance both manufacturers and retailers. And this financial influence persists to this day in various forms in many industries.

Another of these influences might be called the transportation influence.

The factories, each producing enormous quantities of limited number of products, found it most economical to pack in large quantities and to make car load shipments. To ship in small packages, sufficiently small to meet the needs of an individual retailer, would have required shipments in less than car load lots and the organization of a distinct personnel for this purpose. The cost of maintaining such an organization would have had to be borne by each factory and charged entirely against small individual sales of a limited number of products.

The wholesaler occupied the strategic position in solving this problem. He served the manufacturer by buying his products in large lots and served the retailer by selling him in small lots.

There were other influences that tended to strengthen the position of the jobber. Such another influence was the necessity of many manufacturers who had to make and sell in one season, whereas the retailer had to receive and sell in another.

There was the influence of the credit situation, with its inescapeable geographic aspects. The wholesalers, located in the center of the territory which they served; intimately acquainted with the retailers in it to whom they sold not merely one or two products occasionally, but the whole line of merchandise for their stores, were in a much better position to pass upon the credits of retailers than any factory considering the possibility of selling direct. Factories, in the very nature of things, locate where it is cheapest to produce; wholesalers where it is cheapest to sell. And the geographic element affected shipping just as much as credit giving.

Finally, there was the problem of selling itself. The fact that the expense of the jobbers' salesmen were chargeable against large sales of miscellaneous merchandise, made it possible for them to sell at a lower cost. Because of the short distances which the jobbers' salesmen had to travel in covering their territory, they called upon the trade frequently. Manufacturers obviously could not afford to maintain such intense selling organizations, the entire expense of which would have to be borne by sales of a limited range of products.

In some lines of merchandising the system of distribution produced by these influences persists to this day almost in its original strength, even though it is no longer the simple system which it used to be.

In other lines, it has completely disappeared, and has been replaced by what may be truly called chaos in distribution.

THE PRESENT CHAOS IN DISTRIBUTION

Our present business era is one in which the dominant note in most lines of merchandise is struck by those manufacturers who are national advertisers.

In the period preceding this era of national advertising, merchandise was distributed to the consumer through the time tested and well established channels previously described; from the maker to jobbers, from the jobbers to retailers, and from the retailers to consumers.

No such well established channels of distribution exist today.

If a man from Mars were to ask the average merchant of today to describe the system of distribution in his particular line, the business man's reply would fill a book if it described conditions fully. And such a book could very easily be written about nearly every line of trade.

In a great many lines the merchandise reaches consumers by all of the following distribution methods.

Merchandise made by manufacturers who distribute through their own retail stores direct to the consumers.

Merchandise made by manufacturers who sell to retailers direct, but not to consumers.

Merchandise made by manufacturers who sell in part through their own stores and in part through retailers to whom they sell direct.

Merchandise made by manufacturers who sell in part through their own stores; in part through retailers to whom they sell direct, and in part through jobbers.

Merchandise made by manufacturers who sell to jobbers only.

These may all be manufacturers who place their own brands or labels on their goods.

But other goods in the same line may not carry any manufacturer's brand. The merchandise may carry a jobber's brand.

The jobber may sell his brand in part through retail stores which he owns or controls, and in part through retailers to whom he merely sells.

Or he may sell his brand exclusively to retailers.

And in the same line, there will be found retailers—mail order houses, department stores, chain stores—with exclusive brands of their own which manufacturers make up especially for them.

The same factory may make goods competing with its own brands under jobbers' brands and under retailers' brands.

Is it an exaggeration to call a state of affairs in which every producer, every wholesaler, and every retailer constitutes a law unto himself, a state of anarchy? Each works out methods of selling or methods of buying in utter disregard of the general interest. Isn't it possible that this state of chaos in distribution may be in large part responsible for the high cost of distribution?

ELIMINATING JOBBERS, BUT NOT JOBBING EXPENSES

I have already shown that the elements comprising the cost of distribution remain the same irrespective of the channel through which manufacturers dispose of the production of their factories. Whether the work of distribution be done by a single company or by three or more separate and distinct firms, the various elements in the cost of distribution must always be added to the cost of the article to the consumer.

While modern business recognizes in practice that if goods produced by the factory system of production are to be furnished consumers when and where needed, they must be wholesaled and retailed, it has, under the tutelage of national advertisers, developed as if this were not true.

It has, for instance, developed as if the eliminating of the jobbers, eliminated the jobbing expense.

On the contrary; in most cases eliminating a middleman who distributes his cost of operations over a complete range of merchandise, tends to increase the cost of distribution.

To establish separate facilities for storage and shipping and to employ a force of salesmen to reach 1000 retailers instead of a dozen or fifteen jobbers involves a multiplication of overheads and selling forces that is almost always more expensive.

In the case of the national advertiser, it is a question of reaching the consumer, and nothing short of that will serve. If, in order to make the advertising pay it is necessary to create a special distributing organization, or to burden the product with a corps of specialty salesmen, the increased expense is passed on to the tune of "the consumer pays and pays." If, in the effort to make the advertising effective, the regular channels of distribution are undermined, that is a matter of total indifference to the national advertiser.

The inevitable result of the attacks upon the methods of doing business both of retailers and jobbers, is a sort of counter-attack.

The jobber tries to protect his trade with a private brand and the retailer tries to maintain his independent status with what advertisers call "substituting." To the disorganization caused by the national advertisers is thus added the disorganization caused by the efforts of distributors to protect themselves.

A typical result of this disorganization may be found in the great increase in the number of salesmen. The average merchant, and the average buyer in a department store, is literally stormed by an army of salesmen, each striving to place his line with the distributor, and each consuming as much of the time of the buyer as he can secure. The work of buying is enormously more burdensome today than fifty years ago, and to the increased cost for maintaining the armies of salesmen must be added the increased cost of buying.

Of course the rise of national advertising is not the sole cause of the changes in the distributing system. The two main causes of the distributed conditions may be summarized as (1) the changes in buying habits caused by the increase in the number of large retailers or retail buying combinations, and (2) the changes in distributing methods caused by national advertising.

The advent of the department store, the mail order house, and the chain store was accompanied by full recognition upon the part of nearly everybody of their effect upon distributing conditions.

But the coming of national advertising, which has had a much profounder effect upon distribution has been but little appreciated.

THE NATIONAL ADVERTISERS' CONTRIBUTION TO OUR DISTRIBUTION CHAOS

"If," says the manufacturer (in an imaginary conversation reported in PRINTERS' INK), "Jones, the jobber, hadn't put out his private brand in competition with mine, I wouldn't have had any fault to find. He's pushing his own goods, and at the same time handling mine. He won't let me know where my own goods are for sale, for fear I'll go over his head to the retailers. Consequently, between inability to stimulate and help my dealers, and the jobber naturally pushing his own brand in preference, I'm up a tree, and I'll go direct to the retailer if he doesn't come to time."

"If," says the jobber, "Martin, the manufacturer, hadn't cut me out and gone over my head direct to the retailer, I wouldn't have put out my private brand."

"If," says the retailer, "Jones, the jobber, hadn't gone also into the retailing business, I'd not have accepted the direct prices of the manufacturer and wouldn't have gone into the field of wholesaling, too."

Here PRINTERS' INK reports complaints from each of the three factors involved in distribution, but very significantly leaves out the kind of manufacturer who is really responsible for the complaints of each of the parties quoted above.

Today there are really two kinds of manufacturers—those who are national advertisers, and those who are not.

The relations between distributors and manufacturers who are national advertisers and between distributors and those who are not advertisers are very different.

The advertising manufacturer sells to the trade *the demand for his trademarked article.*

The other sells *merchandise,* and merchandise only.

No jobber is ever afraid of pushing the product of the manufacturer who sells him merchandise.

But he dislikes to push the product of a manufacturer who is a national advertiser, because he has good reason for fearing that that manufacturer will ultimately go over his head direct to the retailer.

In addition, he can put into the selections of merchandise made for him something of his own individuality. But he can put nothing of his own, either with regard to quality or price, into the product of the national advertiser.

Naturally he defends himself, and his defense takes either of two directions: He packs a private brand of his own in competition with the nationally advertised brand, or he acquires retail outlets of his own by control or outright purchase.

If his counter-attack takes the form of private brands, he really becomes a miniature national advertiser in his own territory, and inevitably incurs not merely the enmity of the national advertisers, but also of all of the other manufacturers whose products he handles.

If he buys control of retail outlets, he can insure a satisfactory volume of sales for his own merchandise, but he does this at the risk of offending retailers who may feel that he represents a potential competitor of theirs.

Isn't it obvious that the national advertisers really started the sequence of events that are the causes of the complaints voiced in the paragraphs quoted from PRINTERS' INK?

Because the national advertiser limited his profits and methods of doing business, the jobber put out a private brand.

Because the jobber put out a private brand, the manufacturer eliminated him and went direct to the retailer.

Because the manufacturer went direct to the retailer, the jobber went into retailing.

And so on, through the myriad variations, all of which have their real origin in the refusal of some manufacturer to be content with success built upon the making of merchandise and his insistence upon making profits upon his ability in advertising.

The jobber, the manufacturer and the retailer are interchanging functions.

Today each duplicates, to some extent, the other's machinery of distribution; each adds to the number of brands upon the market, and each tends to increase the hazards and costs of doing the essential work of supplying the market with goods. These increased hazards and costs are, of course, part of the elements which enter into the fixing of the price levels of merchandise, and thus national advertising tends to raise the price even of merchandise which is not advertised at all.

Of course, in some lines of merchandise jobbing in the old-fashioned sense may be eliminated without the cost of performing the work of the jobber having to be greater. When the purchase made by an individual retailer from a manufacturer is large, the manufacturer's cost of selling may be no higher than the discount he would have to give to the jobber.

But in many lines the jobber cannot be eliminated, in spite of the fact that prominent national advertisers in the same line may refuse to sell jobbers and sell direct to retailers only. In such lines, the manufacturers who sell direct make either the retailer or the consumer pay for the excess of selling and distributing expense due to their extravagant method of distribution.

Take the case of the big five packers, for example. Their distribution system, buttressed with enormous national advertising, was supposed to be so economical and efficient that it was often referred to in superlative terms. But now comes Secretary Toulme of the National Wholesale Grocers' Association and shows that the notion was a fallacy. He says that the recent attempt at a combination of certain of the packers is really an admission of the failure of direct selling, because "the costs of going around the wholesale grocer are too high." Formerly the packers made use of the wholesalers, who, "selling and distributing several thousand commodities, did the work of distributing cheaper than the manufacturer selling but one line." As Mr. Toulme puts it, their "costs and profits are forced to the lowest minimum by the keenest competition."

There are three possible solutions of the difficulty in which the advertising manufacturer who wants to secure the full benefit of his advertising finds himself.

He may ignore the established channels of distribution and create his own selling organization to go direct to retailers or consumers.

He may continue to distribute through the established channels, but by greatly increasing the margin for profit of the wholesalers and retailers secure their cooperation.

He may increase the volume of his national advertising and create such a demand for his product that the retailers and jobbers dare not refuse to handle it, and recoup for his greater expenditure by reducing their the margin for profit.

Whichever solution he selects, the public loses. Whether the distributors lose or not depends upon the nature of the article and the method of advertising which the manufacturer employs.

THE INFLUENCE OF THE LARGE RETAILER

Of the changes in business methods in the past fifty years which are mainly responsible for the present chaos in distribution—the coming of national advertising and the advent of the large retailer—there remains to be considered the effect upon distribution of the arrival of the department store, the mail order house, and the chain store.

The success of these mercantile institutions was something achieved in spite of the bitter opposition of the small and independent retailers. In this opposition they were assisted to a considerable degree by those jobbers who found that these new retailers were able to dispense with their services.

Traces of the conflict persist to this day, though the small retailers no longer fear annihilation at the hands of their larger competitors.

Small retailers have actually multiplied in numbers. In spite of department stores, chain stores, and mail order houses, they continue to flourish, and many of them flourish under the very shadows of the huge structures which house their competitors.

Now that the echoes of that first furious battle have almost disappeared, it is apparent that the coming of these new types of merchants served merely to introduce new standards of retailing, and to insure better values in merchandise and service from all retailers.

Of the various improvements in retailing which accompanied the establishment of the new retailing, perhaps the most important was that embodied in the phrase "satisfaction or your money back."

The principle of "let the buyer beware" has disappeared in retailing since this maxim was accepted. Many of the most startling innovations of the pioneer department stores, such as the marking of goods in plain prices and the abolition of higgling, are merely varying aspects of the same principle.

It is unfortunate that the public itself has failed to take full advantage of the possibilities involved in the logical development of this principle.

For, at the very time that the retailers of the nation, under pressure of the new competition, discarded one after another the principle of "let the buyer beware," the national advertisers started their propaganda which made the public believe that every retailer was an incipient "substituter" bent upon selling inferior merchandise at an excessive profit.

There is no doubt that this propaganda has been exceedingly effective. The suggestion repeated in a myriad forms in millions of advertisements year after year, that the retailer always sought to substitute inferior merchandise, is in large part responsible for the average consumer's failure to feel full confidence in the recommendations of retailers. But the day is bound to come when the public will appreciate that retailers have the most to lose in giving poor values, and that the retailers, and not the national advertisers, are logically those to whom consumers should turn for guidance in their buying.

THE NEW RETAILERS AND THE OLD JOBBERS

In spite of the very great differences between the old and the new methods of retailing—between a corner grocery and a department store, between a country general store and a mail order house—the essential nature of the service both render to consumers is the same.

While it is true from an economic standpoint that the advent of the new retailers did not introduce any additional elements in distribution; in so far as the jobbers and manufacturers were concerned, it did introduce an altogether new type of wholesale buyer.

The new retailers bought merchandise in such large quantities that they were in position to demand the same discounts from manufacturers which previously were accorded exclusively to jobbers.

The national advertisers, as we have seen, were engaged in demoralizing the classic system of distribution by going over the heads of the jobbers to the retailers. The new retailers, with an attack from the other end of the chain, assisted in the work.

The resulting shifting about of the wholesaling function is shown by the following table. The headings represent the various functions involved in production and distribution. The first line represents those who performed the various functions when wholesalers still did all the wholesaling. The second line shows the change which took place when the new retailer assumed the function and bought direct from manufacturers. The third line shows the change when (as a result of the conditions brought about by the national advertisers), manufacturers undertook their own wholesaling and sold direct to retailers.

Making	Wholesaling	Retailing	Consuming
Manufacturer	Wholesaler	Retailer	Consumer
Manufacturer	Retailer	Retailer	Consumer
Manufacturer	Manufacturer	Retailer	Consumer

Of course, our present methods of distribution are not divisible into three such clear-cut systems. One manufacturer may distribute in all three ways; another in two ways out of the three; another in one way only. One manufacturer may make only his own brands; another may make no branded goods at all, while a third may make his own brands and a variety of private brands which may compete with his own in the consumer market.

THE IRREPRESSIBLE CONFLICT

It is a curious fact that the two main factors in causing the present day complexities of distribution—the large retailer and the national advertiser—are diametrically opposed to each other in fundamental interests.

The large retailer is a direct descendant of the merchant adventurers of old. He scours the world for goods. He is his own master. He formulates his own merchandising policy, feels responsibility to the consumer broadly and directly, and naturally resents the intrusion of any factor which seeks to make of him a mere automaton.

The national advertisers find it difficult to do business upon their principles with a real merchant.

National advertising, logically, requires that nationally advertised goods shall be uniform not only in quality, but also in price. The recurring efforts of national advertisers to secure for themselves the right to fix resale prices upon their trademarked goods is evidence of this fact.

Carried to its ultimate goal, national advertising would reduce the retailer to a mere slot machine, distributing uniform articles at uniform prices.

Retailers would cease to render a selective service for their customers, and would no longer compete with other retailers in the giving of values. There would be no real competition between retailers. The business would go to the retailer who was handiest.

Instead, all competition would be between the national advertisers.

The battle for the consumers' trade would be fought out with advertising space. The manufacturer with the biggest advertising appropriation and the ablest advertising brains would succeed in impressing the largest group of consumers with the superiority of his products. And as a result, the average retailer's stock would consist of nationally advertised brands roughly apportioned among the various brands in accordance with the relative effectiveness of their advertising campaigns.

The reaction of real merchants to the consequences of national advertising is not a matter of conjecture. Even when they submit and stock nationally advertised merchandise, they do it with various significant reservations.

When a merchant risks his all upon the nationally advertised lines and makes no effort to carry lines of "his" own selection, it is a mistake to call him a merchant. The retailer who establishes a business which handles nationally advertised lines primarily can be called a merchant only by courtsey; he is in reality an agent of the various advertised lines he carries. And, like all agents, he has to sell upon margins of profit, upon terms and policies which are largely determined by the will of his principals.

The smaller a merchant the more difficult is it for him to resist. Yet no merchant should find it easier to do so. He is in most intimate touch with his customers. If he cannot inspire them with confidence in his judgment, it is no one's fault but his own.

A large merchant—a department store, for instance—finds it much easier to dispense with nationally advertised goods, and many of them do so, finding it possible to give better values to their customers, even though their profits on such goods may be larger.

The largest merchants of all, the mail order houses, find it possible to do almost entirely away with nationally advertised goods, and they give, naturally enough, perhaps the greatest values of all.

The conflict between the merchant and the national advertiser is irrepressible. No amount of ingenious trade helps, and certainly none of the ordinary sophisms, can obscure the fact that the national advertisers have one set of interests and the real merchants another set.

The national advertisers need delivery agents, not merchants, for their goods. The less the agent can say, the better for them.

The effort to preserve their individuality engages not merely the interests of merchants, but their self-respect as well.

I do not mean to suggest that a retailer cannot make a success of a store primarily devoted to the sale of nationally advertised merchandise. But I do mean to say that he can make a bigger success of a store that is devoted to the sale of merchandise which he knows is the best in value that he can offer his trade.

An advertising man once made the statement to me that he could go into any average city, open an up-to-date store, stock it with well-known nationally advertised lines, and "clean up."

I admitted the possibility. But I questioned the probability of his being able to do so if there was one real merchant in the town. That merchant, I pointed out, could make a virtue of the very fact that the new store was devoted to the nationally advertised lines. By talking values to the public, telling the story of his merchandise, and, above all, by flat-footedly saying that it was impossible to equal his values in nationally advertised merchandise, he could more than hold his own.

It is natural for manufacturer to compete with manufacturer, and for retailer to compete with retailer. It is not natural, and yet it is inevitable, that retailers should compete with national advertisers.

I have said that the conflict is irrepressible. Will it continue a sort of draw, with national advertisers in some lines having a shade the better of the argument, and in other lines a shade the worse, or will one of the two acquire a definite ascendancy?

Not being a prophet, I can only hazard an opinion. There are straws which indicate which way the wind blows. A combination of tendencies, such as an increase of consumer skepticism and a multiplication of advertising appeals, may be sufficient to make national advertising unprofitable. It is impossible to fool all the people all the time. Within ten years the merchants of America may reduce national advertising as a business force to a state of impotence.

IX

ECONOMIC CONSEQUENCES OF NATIONAL ADVERTISING

In beginning these articles, I asked, among others, this question:

Is national advertising a good thing for others than the manufacturers who are successful, the advertising agencies, and the advertising mediums?

It is worth while, before studying just how national advertising "moves its miracles to perform," to consider to what extent this question has been answered.

Up to the present time I have discussed various tendencies in business and their effects upon the manufacturers, distributors and consumers. Before turning to other aspects of the matter, it is worth recalling the high points in these first articles in this study of the economic consequences of national advertising.

1. Created a Wasteful Conflict.—National advertising has created a useless and wasteful conflict between retailers, wholesalers and manufacturers, by trying to reduce retailers to mere vending machines operated in accordance with the will of national advertisers.

2. *Demoralized Distribution.*—It has demoralized distribution, by contributing largely to breaking down the separate functions of the various distributors. It has produced the present chaotic state in which standards of merchandise are lost in a maze of brands. Instead of the various factors in distribution cooperating to move goods, there is a constant "sabotaging" of nationally advertised and private brands.

3. *Reduced the Usefulness of the Jobber.*—It has been the principal factor in destroying the usefulness of the jobber as a purely distributing mechanism, and has caused jobbers in self-defense to invade the manufacturing field with private brands and the retailing field with stores which the jobber controlled.

4. *Changed the Basis of Profits.*—It has greatly increased the margins for profit upon lines of merchandise in which nationally advertised brands hold a dominant position, and by enabling successful national advertisers to fix the ratio of distribution to production costs, has increased their net profits while limiting the net profits of wholesalers and retailers.

5. *Raised Distribution Costs.*—It has helped to increase distribution costs by duplicating and reduplicating parts of the general machinery of dis-

tribution, and under the pretense of eliminating middlemen has replaced distribution through retailers and wholesalers, with distribution through extravagant selling organizations maintained by individual manufacturers.

6. *Raised Consumer Prices.*—It has raised consumer prices and prevented the public from securing the benefit of lower costs of production, partly by shifting the basis of competition from the salability to the advertisability of merchandise, and partly by "high-pressure" extravagances in selling, it has made distribution for all manufacturers more hazardous and costly.

7. *Ignored Value-Giving.*—It has consistently ignored the necessity of "value-giving," by pricing nationally advertised merchandise upon the basis of values subjectively created in the consumer's mind by emphasizing factitious and fictitious superiorities and by ignoring the objective value of the actual merchandise.

8. *Attacked Competition.*—It has attacked competition as an inadequate regulator of price, quality and value, and to the extent to which it was possible to create consumer demand at advertised prices or to maintain prices under the law, has substituted for competitive price fixing, the principle of "charging all that the traffic would bear."

9. *Profiteered.*—It has enabled the successful

national advertisers to take enormous profits upon their ability in inducing the public to pay dividends upon their investments in good will.

10. Injured Business.—It has expended millions of dollars in multiplying the agencies of consumer appeal solely in its efforts to aggrandize itself at the expense of the public, the retailers and the wholesalers; it has restricted the buying-power of the consumers of the nation, by inducing them to pay luxury prices for staples, and thus has injuriously affected the general prosperity.

PART II

THE RETAILER AND THE NATIONAL ADVERTISER

X

THE CONSUMER AND THE RETAILER

The consumer is essentially a two-legged animal which fulfills its needs and desires by purchasing merchandise.

As a mere animal he has needs that are precisely the same as those of the consumer of a hundred years ago, and of the consumer of a thousand years ago.

His needs for food, clothing, and shelter have not been increased or decreased by changing custom.

Yet it is almost impossible for the typical consumer of today to draw a distinct line between the things which are necessary to sustain life, and the things which are necessary to sustain a comfortable existence; between merchandise which is purchased to satisfy needs and that which is purchased to satisfy desires.

THE CHANGE IN THE CONSUMER

Fifty years ago the consumer found it easier to distinguish between necessities and luxuries. It has been one of the achievements of the past half century to so transform merchandise as to make what was at one time a necessity cost as much as former luxuries, and to make many obvious luxuries seem necessary to life.

Fifty years ago cereals, such as oatmeal and cornmeal, were necessities which furnished a considerable proportion of the average individual's total nutriment.

Today the consumer no longer buys cereals as cereals. He buys "breakfast food." He buys the same cereals as of yore, but flaked, rolled, puffed and shredded so as to make them advertisable. He pays luxury prices for them, though still believing that he is purchasing a necessary of life.

Speaking of conditions fifty years ago and of the intensity with which the merchandise itself figured in buying, George F. Parker said in THE SATURDAY EVENING POST:

"The responsibility thrust upon the housewife in the purchase of goods for clothing was always serious and heavy. It involved a general knowledge of textiles now almost lost from disuse. If intended for winter garments, the principal consideration was to determine whether it was all wool and a yard wide, as well as its capacity for shrinkage; and the way the goods were pulled apart and their warp and woof examined was often the despair of the storekeeper with whom patience, whether natural or acquired, has to be a virtue. In prints or ginghams the one question was, will it wash? In this line the knowledge of the seeker counted for less; but the seller's penalty for mistake or misrepresentation was likely to be imposed even more promptly than in the case of woolens.''

Today the consumer no longer subjects merchandise to any such searching scrutiny. He has been taught to look for the label.

This transformation in the habits of the consumer has been effected only in part by the new standards in retailing. It has been mainly the work of national advertisers who have skillfully exploited and capitalized the psychological weakness of the consumer.

If this change had made the consumer a more discriminating judge of merchandise, it would represent real progress. But the fact that it has made the consumer a poorer judge of merchandise values shows that however the process of effecting the transformation be dignified it yet involved the methods of charlatanism and quackery.

THE CHANGE IN THE RETAILER

When I go into a grocery store today, I am confronted with shelf after shelf of cartons, bottles, and cans. There are probably fifteen kinds of breakfast foods, twelve sorts of soap, six brands of baking powder, several brands of extracts, soups, cooking fats, and syrups.

If I ask for a pound of cream of tartar baking powder, the probability is that the clerk will look at me blankly. He is not used to selling a baking powder as baking powder. He is only used to selling certain brands of powder for that purpose. In nine cases out of ten he will be entirely useless to me in helping me to an intelligent selection of the best value among the various brands. He will probably show me the various brands of baking powder which he carries, and leave me to make my selection from among them. In sheer desperation, I will probably take the best known of the brands, and so fall a victim to the very situation which the manufacturer of the brand had spent fortunes in developing. If I analyze my purchase afterwards, I will in all probability find that I have paid not only the highest price asked for any of the cans from which I made my selection, but that the pound which I wanted to buy was only a pound in a figurative sense, and that instead of having bought a 16-ounce can, I had only secured a 12-ounce can.

The consumer of today is confronted with similar difficulties with regard to the greater part of his expenditures. He lives and has his being in an atmosphere of brands, labels and trademarks, and loses sight of the merchandise under the incessant hammering and bombardment from every newspaper and magazine and point of vantage as to the importance of looking for the label.

What should the consumer do?

It is a sheer absurdity to think that buying advertised goods is a sufficient principle to guide the consumer in buying. The real question in many cases is, which of the advertised brands should be bought? Whenever the retailer gives the national advertiser complete freedom in guiding the consumer, the consumers will buy the various brands in proportion to the effectiveness of their advertising.

Of course the true principle which should guide the consumer is judgment in accordance with the merits of the merchandise itself.

But the consumer no longer has a general knowledge of merchandise. He has been trained to think of brands, and not of commodities.

Since he lacks adequate technical knowledge of the merchandise itself, what is there left for the consumer to do?

He can turn to the retailer for guidance.

It is true that today many retailers, some of them very successful retailers, cannot guide him in this way. They too are unable to distinguish the various trees in the forest of advertised labels. They conduct their business with a surprising lack of knowledge of the merchandise they sell.

But so long as they are good judges of the relative demand for the various brands on the market, they can cope with the merchandising situation created by the national advertisers.

The moment the consumer starts to hunt for a retailer who knows the merchandise he handles; where it comes from; what it is made of; how it is made, and what constitutes its degrees of excellence—in that moment the slot machine retailer loses a customer; the real merchant gains a customer, and the national advertisers lose one of the army of consumers whose buying-blindness has enabled them to create their towering capitalizations of good-will.

THE RETAILER AND THE CONSUMER

If I were a retailer, and worried, as all retailers have been worried for the past decade, by my customers' complaints about rising prices, I would either justify my existence as a retailer, or go into a line of business where I could.

I would find myself—determine what was my function in the present scheme of things.

Then I would sell my policy, whatever it might be, to my customers—if it was salable. And if it wasn't salable, if it didn't satisfy them, I would change it for some policy that would satisfy them, or go into some other business.

I would take my customers sufficiently into my confidence to sell them on the merits of the basis on which I did business. I would want them to know that I was not a mere animated vending machine, giving them what they thought they wanted, but a real merchant; a merchandise expert; that merchandise values were my religion, and that by making my customers' true interest correspond with my own, I fastened them to my store with chains of real service. I would want them to know that I was not at the head of a mere delivery service, but that mine was truly a selective service, for the community in which I lived.

For one thing, I wouldn't just drift with the tide on this question of rising prices. The suspicion of encouraging or being responsible for high prices is a terrible handicap to any business. *I would let my customers know why a retailer can be with the customer in the effort to get lower prices.*

And I wouldn't pose as a philanthropist for being with them.

I would show my customers that my success is determined not by the profit made on the merchandise I sell so much as on the volume of my sales. Assuming that I am a grocer, I would show them that the average customer in my store spends $50 per month for groceries, and that each adds to my volume of sales to that extent just as long as my service and my values suited them better than those of another retailer.

Since my gross profit will average the same on their total purchases, it doesn't make a particle of difference whether prices go up or down so long as they spend $50 per month with me. If I can give them more groceries or better groceries for their money and by far-sighted merchandising reduce the prices on the things they buy, that would not affect my profit because it would hardly affect the proportion of their earnings which they spent for groceries. But it would act as a powerful selling force in holding the customer and getting all his trade.

At all hazards I would sell them on the proposition that as a retailer it wasn't their occasional purchases that I wanted badly, but their regular trade.

To do this effectively might seem difficult, but coupled with the fact that I would begin talking merchandise to them as never before, the final effect upon consumers would be certain.

I wouldn't be afraid of being technical.

When a man is considering the buying of a suit of clothing, he is interested in clothing. He may not particularly care about enlarging his knowledge of woolens, and style and tailoring ordinarily, but when he is in a buying frame of mind he is anxious to listen to the merchant who can talk convincingly about these things. He will trust the judgment of the merchant who knows, and shows that he knows why the article which he offers is a better piece of merchandise than any other he might buy, and why and how the customer should go about judging the value of the merchandise himself.

Above all, I would get out of the habit of hiding behind glittering generalities. If I were a clothier, I wouldn't talk about having the latest styles, and the best tailoring, and the finest woolens. If my clothes justify these superlatives, these qualites must be inherent in the clothes themselves. I would therefore tell the public something specific about the styles I had in stock, and why I had selected them. I would tell them what the woolens were, where they came from, and why the various patterns and weaves were selected by me.

In this way, by a policy of educating my customers, I would get away from the atmosphere of high pressure selling.

This policy I would inaugurate, not at the selling end of my business, but at the buying end.

I wouldn't handle anything, no matter how well known nor how effectively advertised, that didn't represent the best value which I could offer my trade.

Above all, just as I would cease trying to get business by sheer high pressure selling, I would insist that those who sold me merchandise should talk merchandise to me and not the resalability of consumer demand.

I am indebted to PRINTERS' INK for the following story:

A famous clothing house, which has made national advertising the cornerstone of its policy, has always instructed its salesmen to make their advertising the keynote of their selling talk. Their salesmen (who are on salary, not commission), talk little else but advertising to dealers. One dealer who listened to a long and interesting delineation of what the manufacturer had done, was doing, and would do in the way of advertising, suddenly said, "Yes, that's fine, but what about the clothes?"

XI

THE RETAILER AND THE NATIONAL ADVERTISER

The merchandising policy which I recommend is not a new policy. It is the policy of some merchants today. But curiously, it is the policy which generally prevailed prior to the time that nationally advertised merchandise became dominant factors in so many lines. To put it again into general effect, merchants must look upon nationally advertised merchandise as "suspect," just exactly as it was "suspect" when it first made its appearance.

In those days, the burden of proof that nationally advertised merchandise was not overpriced was upon the manufacturers who spent fortunes for advertising.

When their salesmen talked to merchants, they had to overcome methods of buying based upon centuries of mercantile experience. They had to convince wholesalers and retailers that they should substitute, for the mere merchandise of those days, the trademarked and advertised articles which they were introducing.

Under the assault of the national advertisers all the old standards and grades of merchandise have been undermined or destroyed.

It is a rank absurdity to speak of trademarked articles as having introduced standardization. They are simply uniformized specialties which have been substituted for standard grades.

Standardization requires the establishment by authority or by custom of various grades to which all manufacturers conform.

Instead of nationally advertised products conforming to the standards in various lines, they generally cut athwart the established standards. They are usually a little better than the poorest, a little poorer than the best. They generally grade as polished mediocrities. They are, it is true, uniform in quality, form, and content. Generally claims are made that they are "best," and it is difficult to disprove the truth of these claims because so many of them depart from standard merchandise in some particular feature.

STANDARDIZATION

"Advertising," says one of the syndicated advertisments of the Advertising Association of Advertising Agencies "has standardized almost every article you can buy."

What is meant in the above statement by "standardized?"

By a liberal interpretation of the meaning of the standardization, it may mean either of two things:

First, that the advertising of a product tends to make that product the accepted measure of quality in its line.

Second, that prior to the present era of national advertised products, no standards existed with regard to most of the articles bought by the public.

Both of these are half-truths which lead to entirely wrong conclusions.

THE TENDENCY TO UNIFORMITY

The national advertising of a product does make it possible to buy the same identical product in widely separated communities, and to continue the buying of an identical product over considerable intervals of time.

In spite of this tendency to uniformity, there are many instances in which advertised products have changed in size, in composition and in quality without the consumers of the product being made acquainted with the changes. In fact, changes are generally made without consulting any one in the trade—the maker taking it for granted that so long as the public is kept persuaded that the brand is all that counts, no one else has any interest in the matter. It would not be difficulty to match any list of nationally advertised products which have remained uniform for a long period of time with another list of nationally advertised products which have been radically changed in the same period of time.

National advertisers do not really try to standardize products, but to create a public taste and demand that can be satisfied with a uniform product. National advertising tends to "standardize" demand; it tends to destroy grades and standards in merchandise.

It is true that in any line of merchandise in which some one advertised product is the dominant product in volume of sales, that this product is sometimes the accepted measure of value in its line. In most lines, however, there are so many advertised products that it is simply ridiculous to speak of them as standardized in this sense.

REAL STANDARDIZATION

The Government of the United States has established for decades through the United States Pharmacopeia standards for almost every product in the line of drugs. The Pharmacopeia gives the accepted specifications. There can be no question about the fact that drugs made by these formulas represent drug standardization. The public can buy standardized drugs made by nearly all the drug manufacturers.

But these are not the products which are nationally advertised by the manufacturers. When a drug manufacturer starts to advertise a product, he almost invariably departs from the Pharmacopeia, or if he sticks to it, he carefully conceals the fact that his brand is the identical grade or standard which can be purchased from other manufacturers.

What is true of drugs, is true in almost every line. Grades and standards of the various products automatically put in their appearance as soon as a product is regularly bought and sold. The specifications which embody these standards are not always embodied in a Government publication, but they are still definite enough to guide buyers and sellers in comparing qualities.

So long as the product itself is the thing that determines a retailer's decision in stocking merchandise which is offered to him, it is important for him to determine its actual size, composition and quality so that he can determine how it compares with the various grades made of the merchandise.

But the moment the product is nationally advertised and it is the consumer demand for the product that determines the merchants' decision in stocking it, the question of whether it conforms to the accepted standards plays no part in his decision.

The disappearance of real standardization in any line of products is always followed by the distortion of the public's sense of values, by "slot-machines" retailing, and by competition between manufacturers in national advertising.

The manufacturer of an article which is not nationally advertised has obviously a vital interest in the preservation of the practice of buying in accordance with the merchandise standards, because so long as retailers and consumers measure value in this way, products will sell upon the merits put into manufacturing them and not into advertising them.

THE WASTE IN MULTIPLYING BRANDS

The whole problem of buying and selling would resolve itself into something like its original simplicity if merchants carried different grades of a product, and refused to carry different brands of substantially similar quality.

I went into a hardware store to buy a wrench. The salesman brought two wrenches, one of which he priced at $1.00 and the other at $1.50. I examined the two wrenches carefully and so far as I could see there was nothing about the wrenches to account for the great difference in price. I asked the salesman whether he knew what the difference between them was. "Why," he said, pointing to the $1.50 wrench, "this one is the famous 'XXX' wrench which is advertised in all the magazines." "I know that," I replied. "What I would like to know is where the fifty per cent. difference in quality comes in." He looked at me a little blankly, then said he would ask the merchant himself about the matter. The owner, evidently interested by my inquiry, came over with the salesman. He looked at me with a twinkle in his eye and said: "To be perfectly frank with you, there is no difference between the wrenches themselves. The 'XXX' wrench is widely advertised. Many of my customers ask for it. It costs me more than half again as much as the other and I have to charge my customers accordingly."

The merchant carried a stock of wrenches twice as large as the needs of his customers required, because he felt he had to carry that two brands. If wrenches were standardized, and bought and sold by grade rather than brand, everybody would have been the gainer.

But the evil of this lack of standardization goes deeper than the multiplying of the merchant's stock. It is bad enough for a merchant to carry, as one investigator put it, six or seven varieties of women's knit underwear, when the largest store on State Street, Chicago, carries only one brand, or to carry seventy-two brands of women's stockings, as one Boston store did, until it found that fourteen covered 89 per cent. of consumer's requirements.

What is an even greater evil is the miseducation of the public which results from this. The public gets accustomed to buying by brand, and not by grade, and it judges the relative merits of different brands not by the quality of the products, but by what it reads about them in advertisements and by the prices asked for them. The retailer ultimately becomes the victim of the public habit. He builds up a demand among his customers for a certain brand. The greater the demand which he creates, the more does he place himself in the power of the manufacturer upon whom he is dependent for the product.

The larger retailers have met this difficulty by selling brands of their own.

One way in which groups of retailers, each with small volumes of sales, have sought to meet this difficulty has been to cooperatively manufacture or pack brands of their own. The druggists have been notably successful in doing this, and the A.D.S. brand has become a real factor in the total volume of business done by the druggists of the country.

There is, however, another and more fundamental method of attacking the problem. This is through the development of genuine standardization.

Why should not the retailers' organizations of the country appoint committees for the purpose of drafting specifications covering the various grades of the most important products they handle? These specifications should not, of course, seek to establish absolute uniformity in products, but to create a uniform basis for comparing products. They would form a measure of value which would guide manufacturers, retailers and consumers. The retailers alone are logically equipped to do this, as they stand midway between the consumers and producers. Such specifications, revised regularly, would help manufacturers in designing their products, retailers in buying their stocks and the public in choosing their purchases.

In certain lines, where the products are staple from year to year, this sort of standardization presents no difficulty. In lines of merchandise where style and pattern play the most important part, the specifications would have to relate to materials and operations rather than products.

If a committee investigating the rural schools of New York was able to draught a set of specifications covering all that entered into the building and equipment of a school, so that any school from the little one-room school house to a large consolidated school could be rated, surely similar specifications could be developed with regard to merchandise no matter how complicated its production. If various organizations of farmers could draught specifications for standard living things —horses, cows, chickens—specifications can be draughted concerning mere inanimate products and commodities.

There would then be substituted for the present chaos in buying, an authoritative guide by which merchants could regulate their selection of commodities, and the merchants could use these specifications in convincing their customers that what they recommended furnished the best values that could be secured.

UNIFORMITY AND STANDARDIZATION

There is an important difference between uniformity in a product and the standardization of a product.

The misunderstanding of this by advocates of national advertising has given to nationally advertised products a reputation for a good quality to which they are not entitled.

Let me quote a writer in PRINTERS' INK on this matter:

"We are led to buy an effectively advertised article partly on account of its wide distribution. You know that once you try and like it, you will be able to secure it everywhere. 'Universal accessibility,' then, if you please, is a quality peculiar to the advertised article, and this exclusive quality, you must admit, adds to its value. Whether the advertising or the distribution comes first is immaterial. It is certain that the advertising and the wide distribution go together.

"Suppose two brands of soap of equal quality were manufactured in a certain town and were sold at identically the same price. In the beginning one would get just as much for his money, whether he bought one brand or the other. One manufacturer, by advertising and aggressive, selling methods, places his goods in practically every drug and grocery store in every city and village throughout the country, so the folks who had become accustomed to this manufacturer's brand were then in a position to secure their favorite soap whether they happened to want it. The added convenience gave them more for their money than formerly, or more than in buying the unadvertised brand. The increased output enabled the manufacturer to cut down his cost per cake sufficiently to cover the advertising and still receive the same returns from his investment, and so the purchaser received more for his money in added convenience.

"Granting, even, that the advertising had to be charged up to the customer and that each bar actually cost half a cent more than the unadvertised brand, even then it was certainly worth more than the extra cost for the purchaser to be able to always buy the article to which he was accustomed wherever he wanted it.

"When an advertised article is used with satisfaction in Chicago, it is worth a lot to know that when one gets to Minneapolis he can keep right on using the same identical article. It is worth more than the advertising cost not to be compelled to experiment with unfamiliar brands until he finds one that exactly fills his requirements."

"UNIVERSAL ACCESSIBILITY" IS BASED UPON UNIFORMITY

A standard product is a product which conforms to certain accepted specifications.

A uniform product is a product which is always identical in make and material.

A product may be uniform no matter where or when bought, and yet may conform to no accepted standard.

What PRINTERS' INK said concerning "universal accessibility" applies to uniformity in products and not to standardization in products.

The national advertising of a product generally results in the making and selling of a uniform product, but not of a standard product.

It is true that "universal accessibility" has some value—at least to traveling men—even though all consumers pay a higher price for a value which benefits only a few of them.

But this value is insignificant if the fact is taken into account that the national advertising of a product results in the destruction of standardization in the product—a very serious injury to consumers.

The national advertiser strives to make his product "different." If his product conformed to standard specifications, he would render his copy-writers almost wordless. The first step in planning copy for a national advertising campaign is to discover some peculiarity in the product which gives the copy-writer scope for his imagination.

It has become an axiom of national advertising, that if an article has no exceptionally prominent qualities or values, a scheme must be evolved to make an advertising point.

It may be that the scheme used to make an ordinary article advertisable may have very little or nothing at all to do with the merchandise itself. A peculiarity in the way it is packed may be sufficient for the purpose.

As an instance of this sort of thing a writer in PRINTERS' INK cites Colgate's Tooth Cream. Many thousands of dollars were spent in acquainting the public with the fact that this dentifrice "Lies flat on the brush like a ribbon." The opening of the tube was so constructed that the cream came forth in that manner. Other tooth creams on the market did not lie flat on the brush. In this way the Colgate people, comments this writer, had "really given this article a quality or an advantage, which the product itself did not possess."

But the departure from the merchandise standard may have even less reality than such as that in the instance cited. About ten years ago the advertising manager of one of the leading manufacturers of varnish in this country noticed that other manufacturers, in advertisements of the same sort of varnish, rarely mentioned the point of durability. So they fastened on this one point which could be featured, and made durability the theme of their national advertising campaign. There wasn't a particle of difference in value between the grade of varnish advertised by this manufacturer as exceptionally durable and similar varnishes advertised in other ways by the other manufacturers. The public was led to believe that this particular varnish was more durable. Thus it was lifted out of the class of standardized varnishes, and the dealer was confronted with the problem of adding a new line of varnish so as to meet the demand for the "durable" brand or of discarding his present line and substituting the branded line for the mere varnish which he had been selling satisfactorily for years.

Retailers who had been in the habit of buying merchandise of certain standards which their trade required, and with the quality of which they were familiar, naturally resisted the efforts of national advertisers in endeavoring to ignore the question of the merit of the merchandise itself. Buying to standard, each retailer had the opportunity to secure what was in his judgment the best value on the market. It was plain enough to him that if he substituted the trade-marked specialty for the standardized article which he had formerly carried, he would be dependent upon the one manufacturer of the branded product for his goods. If he "fell" for the skilful salesmanship of the national advertisers, he would become a mere delivery agent for the manufacturers and would have to sell the advertised lines on terms fixed by manufacturers of the advertised articles.

Paul E. Derrick, the creator of the Gold Dust Twins, the benign old Quaker so long associated with Quaker Oats, and the world famous good fellow, Johnnie Walker, tells how manufacturers reasoned among themselves in determining to create a demand for their merchandise which would force recalcitrant retailers into line.

"They said to themselves, 'There are so many million people who need exactly what I am making. They are every day buying something for exactly the same purpose as mine is intended. Some of the things are just as good as mine, some are not so good, and some are absolute rubbish. The public does not know whose goods it is buying and it does not care, but if it knew that it could not get anything better than mine, at an equal price, and if it could identify mine, and was entirely satisfied with them, I believe they would be asked for at the shops.'

"To market the goods, plans must be based upon efficient advertising to the consumer to interest him in the goods; to induce his initial purchase, and by the same means, to continue to stimulate his interest and purchase, and to create an atmosphere of individuality for the goods offered. He must be educated to think of 'A's BISCUIT,' instead of biscuit; of 'X BREAD,' instead of bread; of 'B's SHOES,' instead of shoes; of 'Y MATCHES,' instead of matches."

Mr. Derrick then unwittingly shows how any departure from buying merchandise itself toward buying trademarks, labels and brands completely destroys the selective process which is the real merchant's true function in society.

"With the public 'pulling' on the retailer for goods, as a result of the consumer advertising, it will require distinctly less 'push' on the part of (the manufacturer's) salesman to secure a rapid and thorough distribution of them, and a constantly lessening effort and expense to keep them always accessible to the buying public. Indeed, by no other means can sufficiently thorough and widespread distribution be effected to ensure the permanence of a large profitable business.

"Salesmanship of advertised, price-protected lines differs essentially from salesmanship applied to unadvertised lines. The modern traveller is a representative of identified and advertised goods that represent the 'house,' not a representative of a remote and phantom house that his customer knows only as an address to which he makes occasional remittance. If qualified, he is quick to appreciate the tremendous selling force which he controls when he takes out a well advertised line.

"He finds the dealer more interested in the story of the advertising behind the goods than in mere discussion of the goods, or the price.

"There are many opportunities offered the modern salesman to show the retailer how he can hitch his interests to the big advertising power with which the manufacturer is backing his goods. It is the salesman's business to demonstrate to the shopkeeper that it is to his interest to identify the shop with the advertised line, to attach the free advertising power to his business. * * * One of the economies of the advertising is that it relieves the salesman from a great deal of the drudgery of selling. *He does not have continually to expound the value of the goods. Nor does he have to parry and thrust with his customers on the question of price.* He can at once enter into intimate relations with his customer. He should show him how to get the biggest possible part of the profit from the advertising which is being applied to the article. Thus relieved of spending his time in gaining the attention of the dealer, and bargaining and wrangling over prices and terms, etc., it is possible for the salesman to do his business with greater dispatch."

BUYING WITH QUALITY, PRICE AND VALUE SUBORDINATE

In the book from which this quotation is taken, Mr. Derrick was pleading with British manufacturers to follow the trail blazed by the national advertisers in this country.

According to this argument of a representative advocate of national advertising, isn't it plain that national advertising tends to make the retailer powerless to serve the interests of his customers in so far as he could get better values for them by eliminating from his buying the discussion of quality, price and value?

The salesman who sells an advertised product need not be a bona fide agent of the manufacturer, who is able to discuss these vital matters with retailers. He is really a mere order taker, who delivers himself of a set of prepared arguments in advocacy of a cut and dried proposal.

The merchant, according to Paul E. Derrick, is compelled to buy the advertised product from him. The merchant's customers have been persuaded by advertising to demand the advertised goods, and failure to supply them would merely result in the customers going to another dealer for them. To effect a sale, the salesman first tries to convince the dealer that it is his duty to fill the demand for the goods created by the advertising. And secondly, to persuade the merchant that he can join in exploiting the consumer.

He tries to convince the dealer that he can increase his profits by handling the advertised goods. But to overcome the obvious fact that the gross profit of the dealer is less on the advertised lines, he "puts over" the fallacy which we will later expose, that because a nationally advertised product can be sold more readily than an unadvertised product, the selling costs of the dealer are reduced by reasons of more rapid turnover.

All this is argued by the salesman to convince the merchant that what should interest him is the greater profit which he is told can be made on the handling of the advertised goods, and not the values which he might be able to offer his customers by careful study of the merchandise itself and "bargaining and wrangling over prices and terms."

Now, the real work of a merchant is to assemble in his store, literally from all over the world, attractive lines of merchandise at attractive prices. If no abnormal factors enter into distribution, he will, as methods of conducting his business become more efficient, render a merchandising service that tends to reduce, little by little, the price of every article that he carries in his stock.

He cannot render this service if the question of price is a subordinate factor in his buying.

Yet this is precisely what the national advertiser wants to eliminate on the specious plea that the merchant should join in exploiting the customer instead of in serving him.

As Mr. Derrick puts it: "If the (national) advertising is being efficiently done, and the salesman properly exploits it, the dealer, just the same as the consumer, has a conviction of the enhanced value of the goods as compared with competitive lines, and the whole transaction of selling to the trade is to a great extent lifted out of price competition."

If I believed that under the present economic system in which each factor in production and distribution looks out for his own best interests; if I believed that—with the manufacturer, and wholesaler, and retailer, each striving for maximum profits—it would be possible to exploit the consumer, I would turn socialist and join in trying to overthrow the competitive system. I do not believe any such thing. I know the reason that national advertisers exploit the consumer is because the retailers who handle nationally advertised goods refuse to look out for their own best interests in the mistaken notion that they are giving their customers what they want.

THE HUMAN EQUATION

In an age of machinery and system, of corporations and of scientific management, it is easy to forget that the two parties to every sale are after all human beings. Economists often overlook this fact. Business men, especially when they are at the head of large organizations sometimes overlook it. A real salesman never does.

Today the ultimate consumer is confronted on all sides with methods of distribution which strive to minimize the human equation. The consumer is unconscious of this fact. He assumes that he purchases in accordance with the dictates of his own will. In reality he purchases very much as his desires have been moulded by national advertising.

Furthermore, national advertising has slowly but surely, over a period of nearly half a century, managed to destroy the consumer's original knowledge of merchandise itself. It has educated him to rely, not upon his own judgment, nor upon the recommendation of a merchant whom he knows and who should be competent to guide him, but upon the statements made by the national advertisers. Today, national advertising makes the two parties to the purchase of merchandise, the consumer who needs it and the manufacturer who advertises it. Formerly the two parties were the consumer who needed merchandise and the merchant who sold it.

To determine whether the consumer is likely to have gained as a result of this change, it is necessary to consider whether the self-interest of the manufacturer or that of the retailer is apt to parallel most nearly the self-interests of the consumer. Since the merchant makes the contact with the consumer it is natural for consumers to look to him to protect their interest.

However, the retailer no longer has this function. He has become a sort of "delivering agency" and responds to the appeals of the consumer for this or that brand with little knowledge of what the product really is.

"The multiplying of the appeals to the consumer has completely changed the retailer's position as a part of the distribution system," says Paul Terry Cherington in "Advertising as a Business Force." "Formerly, the selling of the goods was his main service, and the selling of the goods involved influencing the consumer as to the nature of his wants, bargaining with him over the price, and then convincing him that he was satisfied with his purchase. Under the present conditions, however, largely as a result of advertising, the nature of the consumer's wants is, at least partially, predetermined. The price is more or less completely set and satisfaction is guaranteed. The retailer's service in the case of nationally advertised goods thus become primarily a delivery service and not a selling service."

This is the statement of a writer whose book is described by PRINTERS' INK as "incomparably the best and most authoritative work on the general subject of advertising that has yet been issued."

It is of vital interest to every business man to know whether the changing of "retailing" into "delivering" is an actual improvement in the process of distribution. National advertisers naturally assume that it is an improvement. If it is an inprovement, then it should follow that present methods of distribution should generally be less costly than the methods of distribution which have been superseded. And it should certainly follow that the method of distribution through national advertising should be less costly than the method of just selling the merchandise to the retailer and trusting him to sell it to the customer.

The question to be answered is: Has this change in the method of distribution tended to raise or lower the cost of distribution?

This question has already been answered. Distribution costs have risen, and the increased costs have been shifted in part to the consumers and in part to the distributors.

Is there any good reason why retailers should lend their assistance to a system of selling which injures them and their customers for the benefit of a limited number of manufacturers?

XII

WHAT THE NATIONAL ADVERTISER DOES TO THE CONSUMER AND DISTRIBUTOR

With the public persuaded by national advertisers that advertised brands represent better "buys," and with the retailer persuaded by high pressure specialty salesmen to shut his eyes to merchandise values, what happens to the consumer and distributor?

Is there any better answer than the answer to be found in the pages of Paul E. Derrick's 800-page argument in favor of national advertising?

Speaking to manufacturers whom he is trying to convert to the policy of national advertising, he shows them how they can add to their profits.

In doing so, he cannot avoid demonstrating that what they gain the distributors and the consumers lose.

He compares the division, between the distributors and the manufacturers, of the money paid by the consumer for a cake of advertised soap, with the division in the case of a cake of unadvertised soap. In these two tables, 100 per cent. represents the price which the consumer pays the retailer for the soap.

The Unadvertised Soap

		Per cent.
Retail selling price		100
Selling costs based upon retail selling price:		
	Per cent.	
Retail charge	33⅓	
Wholesale charge	16⅔	
Manufacturers charge	5	
Total selling cost		55
Balance of retail selling price in hand for production and manufacturer's profit		45

The Advertised Soap

		Per cent.
Retail selling price		100
Selling costs based upon retail selling price:		
	Per cent.	
Retail charge	25	
Wholesale charge	7½	
Manufacturer's charge 5% / Added for advertising 10%	15	
Total selling cost		47½
Balance of retail selling price in hand for production and manufacturer's profit		52½

"These selling charges," explains Mr. Derrick, "are exhibited throughout on the basis of the retail selling price, and in the first example, based upon turnover, are equivalent to 33⅓ per cent.

for the retailer, 25 per cent. for the wholesaler, and 10 per cent. for the manufacturers. In the latter example, the selling charges are equivalent, upon turnover, to 25 per cent. for the retailer, 10 per cent. for the wholesaler, and, including advertising, over 22 per cent. for the manufacturer. We, however, find that we have still in hand 52½ per cent. for production and manufacturers' profit, as against 45 per cent. for the unadvertised article—a positive saving of 7½ per cent. upon the total turn-over, figured on final retail price.

"In other words, the economic advantage to the public is 7½ per cent. of its purchase price expressed in either better value, or lower price, or extra profit to the manufacturer. In any event, it is increased national wealth due to increased economy and commercial efficiency."

It is almost incredible that a man of Mr. Derrick's experience in advertising should speak of this as of economic advantage to the public. That it is no advantage to any one but the manufacturers and the advertising industry it is easy to demonstrate by giving this demonstration an "acid test."

Instead of comparing two hypothetical soaps in percentages only, I have taken two actual soaps, one of which is advertised, and the other unadvertised. Both are the products of reputable houses. They are intended for the same use in the laundry. There is no difference between the claims made by the two makers for the qualities of their products. So far as I can tell, there is no substantial difference between them.

Now, if the actual amounts of money involved in the selling of these two soaps be calculated in accordance with Mr. Derrick's formulas, this is how each factor in the sale would share in the consumer's money:

The Unadvertised Soap

		Cents.
Retail selling price, 100 per cent.		6.875
Selling costs based upon retail prices:		
Retail charge, $33\frac{1}{3}$ per cent.	$2.291\frac{2}{3}$	
Wholesale charge, $16\frac{2}{3}$ per cent.	$1.145\frac{5}{6}$	
Manufacturer's charge, 5 per cent.	$0.343\frac{3}{4}$	
Total selling cost, 55 per cent.		3.78125
Balance of retail selling price in hand for production and manufacturer's profit 45 per cent.		3.09375

The Advertised Soap

Retail selling price, 100 per cent.		12
Selling costs based upon retail selling price:		
Retail charge, 25 per cent.	3	
Wholesale charge, $7\frac{1}{2}$ per cent.	0.9	
Manufacturer's charge and national advertising 15 per cent.	1.8	
Total selling cost, $47\frac{1}{2}$ per cent.		5.7
Balance of retail selling price in hand for production and manufacturer's profit, $57\frac{1}{2}$ per cent.		6.3

These two tables show that every time the advertised article is bought by a consumer that he pays nearly twice as much for it as he would for the unadvertised article. The consumer pays 5⅛ cents more for the advertised soap; the retailer gets 25 per cent. less on his turnover; the wholesaler loses 45 per cent. on his turnover. But the manufacturer, after deducting selling and advertising costs (which instead of being less, as Mr. Derrick assumes, are nearly six times, as much), *gets more than twice as much for his cake of soap as does the manufacturer of the unadvertised article.*

Obviously, the additional price which the national advertising enables the manufacturer to

THE UNADVERTISED SOAP

THE ADVERTISED SOAP

The two circles show the relative amounts spent for the two articles by the consumer. The large black areas show the amounts received by the manufacturer for production cost and profit; the small black areas their expenditures for selling and advertising. The white areas represent the shares of the retailers and wholesalers, and how their shares are reduced in order to make room for advertising and the manufacturers' additional profits.

get, doesn't, as Mr. Derrick suggests, give the public a better value.

Isn't the advocate of national advertising rather mistaken, to say the least, in describing the process as an addition to the national wealth (of course, he means the national income, but it would be too unkind to criticize the economic terminology of the average advertising man), when it is really a method of transferring wealth from the consumer, the retailer and the wholesaler, to the manufacturer and the advertising industries which he supports?

At every step of the movement of the nationally advertised soap from the manufacturer to the consumer's laundry, somebody loses, solely in order to contribute to the support of the national advertising industry and to enable a few fortunate and successful manufacturers to double, treble and quadruple their profits.

XIII

CONSUMER DEMAND AND CONSUMER ACCEPTANCE

By what arguments have the national advertisers succeeded in persuading the great majority of wholesalers and retailers that they should not merely handle, but actually "push" their products?

Their first reliances was upon the creation through their advertising of "consumer demand" for their products. When consumer demand became strong enough, it literally compelled dealers to stock and handle their goods.

The manufacturer who relies principally upon his ability to create consumer demand to secure distribution for his product has to take extraordinary pains with his advertising. It is actually of greater importance to him than any mere question of production. It must be so persuasive, so persistent, and fix the superiority of his brand so firmly in the minds of consumers that they will shop around until they find a dealer who handles it. Incidentally, the conviction must be implanted that the retailer who refuses to handle it, who sells something similar which he says "is just as good" is doing so for an ulterior motive—the desire to make a larger profit at the expense of the consumer.

With certain kinds of products, national advertisers have been extraordinarily successful in creating consumer demand. This is notably true of drug, toilet, and food specialties. In some other lines of merchandise it is doubtful whether any advertiser has ever or will ever be able to create real consumer demand. In lines where style, pattern, color, or novelty enter largely into the consideration of a purchase by the consumer, advertisers find it almost impossible to establish consumer demand.

But, in spite of many important exceptions, it is, nevertheless, a fact that with national advertising it is possible to create consumer demand sufficient to literally force retailers to stock the product.

There are outstanding advertising successes built entirely and exclusively upon this system of selling.

THE CUTICURA SYSTEM

A notable one is that which made a fortune, according to records, of $9,133,748 for the late George R. White, the founder of the Cuticura Soap business forty-five years ago. An article in the EDITOR AND PUBLISHER, describing how Mr. White established his business was entitled, "Millions for Advertising, Not a Cent for Salesman of Cuticura. Newspapers Brought Product to People and Retailers Had to Carry It or Lose Sales."

Mr. White's system was to do without salesmen. Even he himself never went out in the trade after orders. Instead, he devoted great care to his advertising. When he wanted to invade new teritory, he set his advertising going.

Today the Cuticura appropriation is well above $1,000,000 annually, which puts it with the first twenty-five or so in point of amount of expenditure. Approximately six hundred daily newspapers are utilized in the United States, in addition to twenty-five magazines and many farm papers and country weeklies, besides Indian, Chinese, South African, Australian, British, and other foreign mediums.

His appropriation in 1883 was $132,000, a giant amount in those days and not a small one even today. His sales that year were $412,000. Since he traveled no men, and his orders came to him without any other expense than his advertising to consumers, this was his total selling expense. Yet it was over 32 per cent.

This is a figure which would bankrupt the ordinary manufacturer, but which means nothing to national advertisers who can make the consumer pay and pay and pay.

Here is a case, sufficient to convince the most practical and the most skeptical that consumer demand is no fiction.

Yet it remains true that in most lines it is incredibly easy for the merchant to completely nulify the efforts of the national advertiser. The retailer holds the strategic position. He has ultimate contact with the public, and in most cases sufficient influence with his customers to make or break any particular sale of an advertised product. Unless the national advertiser has a habit forming article, which is the case with many food and drug products, it is easy for the retailer who is familiar with the merchandise he handles and who is a good salesman, to sell the consumer what he has already in stock similar to the nationally advertised product called for.

Today, the whole field of distribution is so confounded that, with the exception of the great retail institutions, retailers no longer make a real effort to sell what in their best judgment are the best values they have stocked or might secure for their customers. They follow the path of least resistance. Many of them have been made to feel that there is something unethical in what national advertisers call "substitution."

SUBSTITUTION

Substitution, according to national advertisers, is the practice of selling to the consumer who has asked for a branded article some other article which the dealer prefers to sell.

National advertisers generally charge that the retailer who substitutes, sells inferior products in order to secure higher profits.

They assume a sort of moral title to the customers' business in spite of the fact that their claim to it rests solely upon their own efforts to make sales for themselves. They necessarily deny the retailer the moral right to make any selling effort on merchandise of the retailer's own selection in any case where they have succeeded in creating in a customer an interest in their particular brand.

If this be conceded them, it logically follows that a retailer must stock every advertised brand for which he may have calls.

As a matter of fact, the whole propaganda concerning substitution is based upon subtle falsehoods.

It is not the retailer who tries to sell what he has in stock who is the original substituter.

Except with absolutely new products, of which there are very few, it is the national advertiser who first seeks to substitute.

The retailer who serves his customers carries a stock selected to meet their needs and desires.

The national advertisers address his customers and try to persuade them to demand that the retailer furnish them each manufacturer's particular brand. They then go to the retailer, and on the strength of this artificially created demand, ask him to substitute their branded articles for the merchandise which he had been previously handling. Of course, their salesmen do not put it so nakedly. They do not tell the retailer to discontinue the sale of the original merchandise. They merely persuade him to add the branded line to his stock. Time does the rest.

This process of substituting for the grades of merchandise previously carried by the merchant their own branded lines, generally at higher prices, they tell the world is in the interest of the consumer. They thus pose as quasi-philanthropists and appear anxious to protect the public against the greed of the retailer.

Yet, after all, they are primarily in business for the sake of earning profits.

So are the retailers.

The motives which actuate both are the same. Isn't it somewhat ludicrous for us to assume that the advertisers are animated by a virtuous desire to serve the consumers, while the retailers have only a vicious desire to exploit the consumer?

Neither from the standpoint of ethics nor of economics is there the slightest foundation for the criticism of what they call "substitution."

If the advertiser's effort to substitute his branded product for the goods originally sold by the retailer is good in morals and in business, then the retailer's effort to sell what he has been carrying in preference to substituting the advertised line is just as good morals and business.

In most lines it is a sheer impossibility for a retailer to carry even a few of the most prominently of the advertised brands. The merchant therefore has to substitute. When he has none but advertised brands in stock, is he guilty of substituting if he tries to sell the brands he has in stock to the consumer who has asked him for one which he does not carry? I presume, in such a case, the national advertisers would want him to turn the customer out of his store and over to retailer who carries the brand asked for.

The matter thus reduces itself to an absurdity.

There is another point of view from which it is well to consider the matter.

The merchant who practices what is called substitution, and all do that in order that they may survive, has nothing to apologize for to any one. If any apologies are in order, the men who started the trouble should apologize.

Substitution, if it be an evil, is one brought into *existance not by the cupidity of retailers, but by the cupidity of national advertisers.*

Were the manufacturer who undertakes national advertising to truthfully explain himself, he could only plead that he is in business to earn profits; that he has undertaken national advertising because he thought that he could make larger profits in that way.

Unless he can show retailers that stocking his advertised product and substituting it for the product they had been carrying would result in a better value for their customers, or a greater profit for themselves, the advertiser doesn't come to the retailers with clean hands.

He engages in a game of substituting to make profits for himself, and denies the fairness of retailers doing precisely the same thing and for the same reason.

CONSUMER ACCEPTANCE

In recent years, national advertisers who have come to appreciate the formidable position of the retailer who refuses to be cowed by threats of "consumer demand" or fooled by talk about "substitution," have made "consumer acceptance" the goal of their advertising effort.

By consumer acceptance they mean the creation in the mind of the consumer of a conviction of the superiority of the advertised article sufficient to make him prefer the product when it is shown to him by a retailer.

It is entirely possible with effective national advertising to create such a conviction in the minds of consumers, even when the quality of the advertised product is no better than others on the market. It is even possible to create such a conviction despite the fact that it may be higher in price.

Whether the consumer "demands" the product or whether he merely "accepts" the product, does not alter the fact that the retailer has to determine whether it is wise for him to substitute the advertised brand for the merchandise he previously carried.

Unless the new product enables the retailer to offer a better value to his customers, or to offer them the same value while giving him a better profit, I can see no earthly reason for any retailer stocking it. Stocking it without some good reason would simply add to the size and variety of his stock, or make a change in his lines which would leave odds and ends of the original line to be disposed of at a sacrifice.

INTRODUCING THE TURN-OVER ARGUMENT

But the national advertisers have anticipated the certainty that the retailer would come to this conclusion. And for the purpose of overcoming it, they have perfected what is by far the most ingenious half-truth that national advertising has so far sponsored.

Perhaps the best way of showing how the proponents of national advertising mingle truths and half-truths when presenting this argument is in their own words. The following is an excerpt from an article entitled "What Is Profit?" which appeared in the CINCINNATI POST "Market Master," a trade paper published for the purpose of inducing retailers to handle the products nationally advertised in the CINCINNATI POST:

"Profit does not depend entirely on what it costs to get merchandise on the shelves. It depends quite as much on the cost of getting merchandise off the shelves.

"A package that sticks for six months must pay its share of rent and insurance and interests and management and clerk hire and other overhead for six months.

"The package that comes in today and goes out tomorrow has very little overhead to carry.

"What does it profit a merchant to save 5 per cent. on purchase price and then pay 10 per cent. on carrying charges for stuff that people do not know about and do not want and will not buy? The merchant who buys things because they are cheap, but have no reputation, soon builds himself a reputation for selling things at a low price because they are cheap.

"Every package a merchant sells advertises his store. Standard, trademarked, advertised merchandise, carries a quality advertisement of the store into the homes of the purchasers.

"Unknown merchandise, sometimes good and sometimes poor, advertises the element of uncertainty in connection with purchases at the store which sends them out.

"When advertised merchandise with known reputation and certain quality and established value is in competition with unknown goods, the merchant should figure the cost of getting each one on and off the shelf.

"Don't stop with the cost of putting it on the shelf. Don't forget that you wrap your own reputation up with each package you send out."

If we overlook, for the moment, the reflections upon the merchant's ability to buy good merchandise, the most striking admission of the writer of this little preachment is that the merchant in buying the nationally advertised product is apt to have to content himself with a smaller percentage of profit. He attempts to justify the smaller percentage by two arguments: First, that it costs the merchant less to move the nationally advertised goods off the shelf, and second, that because it costs him less, the overhead chargeable against his sales of the product is reduced.

We shall see that both of these arguments cannot stand examination.

XIV

THE FALLACY OF THE TURN-OVER ARGUMENT

Turn-over is a word which is applied to the ratio of stock carried and the volume of sales.

If the stock carried is $10,000, and the volume of sales in a year is $10,000, the stock turns over once a year.

If the stock carried is $10,000, and the volume of sales is $50,000 a year, the stock turns over five times a year.

As some of the items in the cost of doing business are fixed, it is obvious that the more rapid a store's turn-over, the greater is the store's profit.

Upon this truism the national advertisers have developed the famous turn-over argument.

It appears in a myriad of varying forms. In the quotation in the preceding chapter this argument was used for the purpose of proving to retailers that the nationally advertised merchandise can be sold at a lower cost than the undavertised merchandise. Because of its importance, and the many different forms in which it is presented, reducing the turn-over argument to a syllogism will make it easy to hereafter recognize it, no matter what the form in which it may appear.

1. The turn-over on a nationally advertised article is more rapid than the turn-over on a similar unadvertised article.

2. The stock of merchandise in a store handling only nationally advertised merchandise would have a turn-over similar to that on nationally advertised articles.

3. Therefore, a stock of merchandise consisting of nationally advertised articles would turn over more rapidly than a stock of unadvertised goods.

Now, there are only three things wrong with this argument: It is incorrect in premise; it is incorrect in analogy, and finally, it is incorrect in conclusion.

THE COMMUNITY TURN-OVER

It has already been shown that the possible volume of sales of all the retailers in the country is limited to the earnings of the consumers of the nation.

What is true of the country as a whole is true of the average community in the nation.

The possible volume of sales of all the merchants in any community is limited by the total earnings of the consumers of the community. The possible turn-over of their stocks is the ratio between their possible sales and the stocks they carry.

There are only two ways in which the merchants of that town might speed their turn-overs: One is by increasing the earnings of the consumers who buy from them, and the other is by reducing the stocks of merchandise which they carry. There are no other ways. All schemes or devices for apparently lifting themselves by their own bootstraps are certain to prove, upon careful examination, a mere shifting about of the possible sales.

Now, if all the merchants in that community substituted nationally advertised goods for the stocks of unadvertised goods which they had previously carried, and did not decrease the size of their stocks, turn-over would not be changed a particle—the only thing that would have been changed is their margin of profit.

They would make less on the same volume of sales.

What they would have lost, the national advertisers would have gained.

It is therefore apparent that changing from an unadvertised to a nationally advertised basis will not change the total turn-over of our merchants a particle.

Total turn-over of course, can be improved. For instance, it may be changed in a community by increased sales following a raise in wages. But the speeding of turn-over by increasing the earnings of the public is something beyond the control of the national advertisers. Or total turn-over can be improved by more efficient merchandising, which would tend to reduce the stocks which the merchant carried.

But total turn-over cannot be improved by the general substitution of nationally advertised goods for unadvertised goods.

INDIVIDUAL TURN-OVER

It is now necessary to consider whether the carrying of nationally advertised products helps a retailer to turn over his stock more rapidly by enabling him to secure some of the sales which otherwise would go to his competitors.

There are only two ways in which an individual merchant can increase the volume of his sales: One is by inducing his customers to buy more of the kind of merchandise he is selling than they ordinarily do—to buy shoes instead of dry goods—and the other is by getting away some of the trade of the customers of other merchants—getting the public to buy shoes of him instead of other shoe dealers.

The first method has decided limitations. The average consumer's budget covers proportionate expenditures for food, clothing and shelter. He can shift his expenditures about to only a limited extent. It he is induced to overbuy on food at one time, he will underbuy on food until the surplus of food has been consumed. In the same way, if he "splurges" on clothing at one time, he is apt to be forced to economize on clothing until he has caught up with the necessary purchases for other items in his budget. It is remarkable how powerfully the conditions of the average man's life determine what amounts he spends for the various items which comprise his budget.

But as to increasing sales by inducing the public to buy of him instead of other merchants there are no such decided limitations.

The more enterprising merchant can take away customers from his competitors.

The question is, does the carrying of nationally advertised articles, as distinguished from unadvertised articles, help him do this without necesarily increasing the stocks he carries?

This question has only to be asked to make it plain that it cannot do so if all the merchants in the town can carry the same advertised articles.

If all the grocers in the town can carry Ivory Soap, how can any one of them take customers away from the other merely by carrying this soap? Even if the most enterprising grocer puts in the Ivory Soap before the other grocers put it in stock, before he can permanently secure the trade of their customers they will have followed his example and stocked the same advertised soap.

What happens, however, in the case of the clothier let us say, who puts in a nationally advertised line of clothes for which he has the exclusive agency? Does this enable him to take customers away from his competitors?

If, for the sake of argument, we concede that there is consumer demand or consumer acceptance which makes it easier to sell the nationally advertised clothes than the unadvertised clothes, and one merchant in a town stocks such clothes and uses them to get business away from the other merchants—aren't the other merchants naturally going to follow suit and put in other lines of advertised clothes?

Wouldn't the fact that the advertised line of clothes took business away from the enterprising merchant's competitors, literally force them to put in some similar line to hold their trade? Wouldn't the net effect of all this simply be that each of the clothing merchants of the town would have an "exclusive" advertised line, each would have retained their relative share of the business, while all would have lost because they had shifted from lines of merchandise where they controlled their margins of profit, to lines of merchandise where the manufacturers determined what profits they should make?

It is now obvious that the mere adding of a line of advertised goods, even if we concede consumer acceptance, doesn't, in the long run, increase the turn-over of a merchant. If adding advertised products is followed by an increase in turn-over, it will be found in most cases that the increases is due to the efforts put forth by the merchant rather than the demand created by the national advertisers.

Any effort which a retailer puts back of his nationally advertised lines to take trade from his competitors, if put into selling products carrying only his own recommendation, would be just as certain to get the business.

MORE ADVERTISED LINES—MORE STOCK

As against the doubtful chances of increasing his sales by taking customers away from competitors merely on the strength of his stock of advertised merchandise, is the certainty that the greater the number of advertised lines he carries, the larger his stock must be.

A grocer, for instance, could satisfy most of his customers' requirements for coffee by carrying two, or at the most three, grades. But if he attempts to carry all the leading advertised brands (regarding the grade of which he knows nothing), he would have to carry from ten to fifteen.

The vast number of advertised brands now on the market has served to do only one thing: make it more difficult for the retailer to "carry on." He frequently carries two or three times the number of lines of merchandise really necessary, all of substantially the same grade, simply because his customers have been taught by national advertisers to ask for the brands and not for the merchandise.

It is up to him to say whether he shall merchandise what he sells: or whether he shall be a sort of animated delivery service for national advertisers.

We conceded, for the sake of argument, while discussing exclusive agencies for advertised lines, that national advertisers might create increased sales for retailers handling their brands at the expense of other retailers. The concession was made only in order to make it doubly plain that it was a temporary advantage, because the other merchants would be certain to retaliate in kind.

In the long run, no matter how much advertising a manufacturer may do, no matter how much consumer demand he may create for his particular trademark or brand, his brand will not increase the turn-over of the average merchant.

LOWER PROFITS CERTAIN: INCREASED SALES UNCERTAIN

Let us consider the following case: A manufacturer places upon the market a new line of hosiery and puts behind it an extremely clever and effective advertising campaign. His salesman goes to a retailer with the line and "sells" him the line on the strength of the demand which the national advertising will create for the brand. He makes a very persuasive argument, the substance of which is that while the retailer will not make as high a profit on the line, his hosiery sales will increase so largely that net profit will be larger than with his present line of hosiery.

The retailer puts in the new line, which he has been convinced will speed up his turn-over of hosiery, because consumer demand will make it possible to sell more of the branded product than he had previously been selling of his unadvertised lines. In spite of the fact that his gross margin is smaller, he figures he will gain in the long run.

On the face of it, the manufacturer's salesman is right, and the retailer would be foolish to turn down the proposition.

But the merchant does not sell to mere abstractions. He sells to human beings. His total sales cannot be considered a series of unrelated accidents. They are made to his customers. The unit of selling is really not the actual sale so much as the customer. His total sales are really his average sales to each of his customers. If the retailer's sales are $100,000 per year, and he has 1,000 customers, then his average sale to each customer is $100.

Whether the consumer spends more or less than this sum for furnishings will depend upon his income. The retailer has no control over that. Neither has the manufacturer. And as to the proportionate share of his income which the consumer devotes to any particular class of purchases, that is determined by a great variety of influences, of which national advertising is one of the least, because the advertisers of food tend to offset the advertisers of clothing, thus cancelling each other's efforts to a large degree.

To test the national advertiser's claims about the new line of hosiery, the retailer would have to determine three things.

First, whether the manufacturer's advertising would induce his customers to increase their average purchases of hosiery; to spend $105 per year for furnishings instead of only $100.

Second, whether it would induce the other merchant's customers to buy the advertised hosiery from him (but without his losing some of his customers to the other fellow).

Third, whether the possible increased sales from these two sources would increase his turn-over sufficiently to offset the lower margin of profit on the advertised line.

Unless the new line of hose is inferior to the old, the customer is not going to consume more hosiery in the course of a year. He will not have to replace his hosiery more frequently, let us hope, because he wears an advertised brand. The utmost that the advertising might do is to induce the customer to shift his expenditures from other articles to more expensive hosiery. What the retailer might gain on hosiery, he might lose on shirts. And as for a shift from food, let us say, to furnishings, the retailer must never for a moment forget that at the very time that the hosiery salesman is telling him something to that effect, the nationally advertised food salesman is telling the same sort of story to grocers.

If the line of advertised hose which the retailer puts in were the only advertised line on the market, then he might hope to secure a substantial part of the other fellow's business. But as a matter of fact, the other fellow is being at the same time persuaded by some other manufacturer that he can get some of the first retailer's business by putting in another line of nationally advertised hose, and the net result is a mere shifting of business, with both retailers losing by the change.

It is true that if the new line is indisputably better merchandise, he will get business from the other fellow, but then he gets it because he offers a better value, and not because he offers the advertised hosiery.

If, in spite of these considerations, the retailer is able to answer these two questions affirmatively, and he figures that placing in the new line would increase sales, he has yet to determine whether he can secure these increased sales without carrying a larger stock of hosiery. Unless he can increase sales while holding his stock to its original size, his turn-over is not improved a particle.

He might be able to hold down his stock if he abandons his present line and replaces it with the advertised line exclusively. But in many lines retailers cannot do that. They may have to carry several grades to satisfy their trade. Adding a new line, then, is apt to mean duplicating some of the grades which he already has in stock, and thus increase the stock, instead of reducing it.

XV

THE RETAILER: SLOT-MACHINE OR MERCHANT?

A recent advertisement of N. W. Ayer & Company, of Philadelphia, probably the largest advertising agency in the country, may very conveniently serve as a text or illustriation to the theme I am now trying to develop. The advertisement was entitled "Without Destination," and was complete as follows:

"Every day, from every city in the land, thousands of dollars' worth of merchandise is shipped without destination. True, the shipping tags and packing boxes bear the names and addresses of consignees. True, in places near and far, men in warehouses will receive them; merchants will put the goods upon their shelves. But these are not destinations. These are merely junctions. Merchandise is not made for wholesalers or retailers. It is not fashioned to grow old in storerooms or catch dust on shelves. Yet how many makers ship their merchandise to these junctions and then forget it—ignoring the fact that its journey is not yet completed—failing to provide for it a waiting destination in the homes and business places of those who use it. They seem to think, these makers, that when their salesmen take an order from a wholesaler or retailer the merchandise is sold. They leave it to shift for itself in the crowded junctions of trade—to find its way, if it can, into the hands of casual buyers who do not seek it, and to whom its quality means nothing. But these are not the leaders of today—and their method is the method of the past. Fewer and fewer they become—harder and harder grows the road. Their merchandise, lost in the maze at the junctions, gives way to products that know where they are going—advertised products whose market is assured."

Is what N. W. Ayer & Company says true?

Can it be truthfully said that when a wholesaler or retailer orders merchandise from a manufacturer, obligates himself to pay for it, and undertakes to sell enough of it to pay for it, that the manufacturer has not sold the merchandise nor the distributor bought it? Of course not.

The implication that wholesalers or retailers buy merchandise in order to have it "grow old in storerooms or catch dust on shelves" is downright funny. And the utter lack of faith in the capacity of good merchandise "to shift for itself," or in the judgment of consumers "to whom its quality means nothing," is noteworthy.

But the advertisement reveals a more surprising lack of appreciation of the importance of "merchandising."

Merchandising has been defined by Arthur Freeman, former advertising manager for Gimbel Brothers and R. H. Macy & Co., Inc., New York City, as "The art and science of so co-ordinating the production and selection of goods or services with their sale and distribution as to result in maximum service to the patron and consequent just profit to the merchandiser."

It is plain that one of the foremost exponents of national advertising utterly denies to the retailer the creative function described by Mr. Freeman.

For if the retailer is a mere junction, a mere consignee in a transaction between the advertiser and the consumer, it is ridiculous to assume that he should determine the selection of the merchandise by his public, much less influence the making of the merchandise itself.

These pretensions of the advocates of national advertising are certainly damaging to the pride of merchants. But they have much more serious consequence.

As we have seen, national advertising makes it possible for the manufacturer to charge "as much as the traffic will bear."

Hence, the retailer has to pass higher prices on to the public, and the public visits its resentment upon him.

The policy best adapted to correct these conditions, and to correct them in a natural manner without unbusinesslike dogmatism, is a reassertion of the supreme importance of the merchandise itself.

To the extent to which the retailer surrenders to the national advertiser the merchandising of his stock, to that extent he must shut his eyes to the merchandise which he handles. It is an unfortunate fact that many retailers have grown to accept this as an inevitable and unchangeable state of affairs. The national advertisers are literally making over retailers into the sort of vending machines necessary to their method of distribution.

These retailers are to a degree the retailers of the present. But to survive the periods of hard times, to be the retailers of the future, they will have to be more than "consignees." They will have to be tradesmen who know merchandise.

A DANIEL COMES TO JUDGMENT

Before turning from our discussion of the consequences of national advertising as it affects the retailer, corroboration of the views here set forth comes from an unexpected source. PRINTERS'

INK for January 11, 1923, is like a Daniel come to judgment.

This issue contains an article "By a Small-town Storekeeper" entitled "Why Traveling Salesmen Call Me a Crank." The article is written in the first person and tells the story of a storekeeper who experiences a complete change of heart when he suddenly appreciates the danger of running a business with gross annual sales of $78,000 and a stock of more than $50,000 at inventory time.

This man's store was a small-town department store or "general merchandise store" and he carried everything from a cream separator to leather belts, from corsets to canned milk, and from shaving cream to candy. Everything was going along happily until he began to find it more and more difficult to get the money to meet current bills. In spite of a fine big trade, good collections, low expenses, he found it difficult to keep his head above water.

About ten years ago a quarrel with a salesman who criticised his methods of doing business opened his eyes.

As he says, in his own words: "I found I had four makes of cream separators, eleven brands of shaving cream in tubes, four varieties of dress gloves, six makes of men's suits, seven kinds of toothpaste, six brands of automobile tires. I had candy from five different concerns, cakes and crackers from four, six brands of canned salmon, and five kinds of 'best ' coffee, and I had six different kinds of canned beans and seven brands of tomato catsup."

This not uncommon condition in retail stores, this man attributed to the fact that he had been a "good scout" with the boys on the road. His diagnosis of his trouble was from a business standpoint, of course, superficial. From a psychological standpoint, as a diagnosis of his own weakness, it was shrewd and correct. But had he been at all familiar with the economic tendency which we have been studying in this book, he would have known that the multiplicity of salesmen who called upon him, and the variety of brands which they convinced him he ought to carry, was due primarily to the growth of national advertising. The manner in which he corrected his trouble shows that, while he did not see beyond the symptoms of the disease to the cause of the disease itself, he happily chanced upon a remedy for his troubles.

HIS NEW VIEWPOINT: SELLING INSTEAD OF DELIVERING

After a sale which cleaned out his stock of variegated brands, he adopted a policy of selling a single brand of his selection in each line instead of carrying and distributing the various brands his customers had been led to demand. He says, "Probably the most important thing I learned, when I finished cutting down my stock, was that while it is all well enough to cut down to one brand each of evaporated milk, and of condensed milk, and one or two kinds of pork and beans, and one make of shoes, and one kind of cream separator, the man who handles seven kinds of evaporated milk hands out milk, or pork and beans, while the man who handles one brand of evaporated milk or beans, sells them.

"For instance, I found that my annual sales of evaporated milk were about a hundred cases. Right at that moment I had on hand six different brands for a total of forty-eight cases. I was down for less than two turn-overs a year. Yet one good brand would serve my purpose and I could buy it every week, if necessary, and make thirty or forty turn-overs a year, with ten or twelve or at the most twenty-five dollars tied up instead of more than two hundred."

Now note the method he adopts to sell the one brand he decides the best he can offer his customers—nothing less than our old friend "substitution" under the pseudonym of "switching."

"When I used to handle seven varieties of evaporated milk," he says, "a customer could say, 'A can of milk' or she could say 'A Can of Blank's Milk,'' and I could supply her. Now she may ask for a brand of milk which I do not have. There is where selling comes in. That was the most important lesson I had to learn. It was especially hard with coffee. It is easy to switch a customer in milk or beans or men's clothes or gloves, but coffee is the acid test. I had picked out the best selling brand that I had and decided to get behind it hard, but before a week was over, I had to put in a hurry-up call for the salesman.

" 'Say, this theory of selling one kind of coffee is fine and I wish I could do it. Maybe you can, but I can't. Can you show me how it is done, or do I have to put in a brand to suit Mrs. Jones and another brand to suit Mrs. Smith and so on?'

"I had to learn a lot of things about coffee in general and this line in particular, but when we got all through the session that evening, my clerks and I were convinced that this particular brand of coffee was the only one we could sell with a clear conscience. We rigged up a percolator and made coffee every day. We told women why we were handling just one line and why they should buy that one line. Possibly we lost a few customers, but I know of many we gained. We could talk coffee better than any merchant in competition with us. We could teach a woman how to make better coffee with our brand than she had made before. We turned our coffee over so rapidly that it was fresher and better than any they were used to getting in a small town. Our account was so valuable to the coffee house that we could and did get the best of service and advantage in buying. Its salesman did not push his brand so hard in other stores and gradually we had almost the exclusive agency with a wonderful coffee business built up for us. We not only had a big coffee trade, with turnover and profits, and people swearing that 'there is only one place in town to buy coffee,' but we had learned how to sell coffee.''

What this policy means in the case of coffee, it means in the case of any kind of merchandise which is sold in a retail store. In the case of this merchant, it stopped with his selling of one brand. It was not carried to its logical end.

Logically, a real merchant should refuse to handle the nationally advertised products unless he cannot avoid it.

If a merchant once adopts the policy of selling the customer what he has decided as the best value he can offer his trade, instead of ''handing across the counter what people want,'' he himself, rather than the owner of the brand, is entitled to the full benefit of the ''good-will'' created by the merchandise he sells. There is absolutely no reason why he should create this good-will for a manufacturer unless the manufacturer gives him a substantial reason for doing so. Now the national advertising manufacturer cannot, in the very nature of things, do that. He spends a fortune in trying to make people demand his particular brand from retailers, and in convincing retailers that they should give the people the brand for which they have been persuaded to ask. What he expends for national advertising every year, and his interests and profits upon his entire investment in "good-will," has to come out of the retailer or consumer, or both.

In this respect, the policy of the large department stores of the country is absolutely logical. A New York store once purchased a special lot of woman's coats and suits from a manufacturer whose label was nationally advertised. The manufacturer congratulated himself on "having broken into New York." Imagine his dismay when he discovered that these garments were put on sale but with all his nationally advertised labels removed! When a representative of the manufacturer called upon the buyer of the department for an explanation, it was given very briefly: "We take the responsibility for selling the garments. Why should we turn our department into a delivery agency for your factory?"

DELIVERY AGENTS SHOULD GIVE WAY TO THE MERCHANTS: CLERKS GIVE WAY TO SALESMEN

Under modern conditions it is possible for a man to go into retailing with almost nothing in the way of real knowledge of the merchandise he hands out. Such a retailer becomes a sort of delivery agent for the manufacturers of advertised products. But if enough merchants assert themselves, these retailers cannot survive. They will give way to the merchants, just as clerks gave way to salesmen in the case of the storekeeper whom we have been quoting. As he says:

"Another thing this move did was to change the character of my clerks to a very great extent. A new kind of a clerk has developed. The vacant-faced individual who handed out this and that has had to disappear. I must have clerks who can sell my brand of milk because they can show a customer why it is to her advantage to buy this brand. They have to be able to tell her why we carry one line of gloves and why she wants that line, why we carry two kinds of tomato catsup and two kinds of pickles, one line of candy and one line of cookies.

"They aren't clerks but salesmen. They draw salesmen wages. They have to earn their money, though. They work on wages and commissions. They spend their spare time learning about the lines they are selling. My man who sell shoes is very glad to spend an evening on his own time with the shoe salesman. Two of my grocery clerks have left to me to go on the road with houses from which I buy. They have made good because they know what they are talking about."

PLATFORM: MERCHANDISE ON ITS MERITS

I have been trying to emphasize the importance of getting back to the merchandise because recognition of that is a prerequisite to the appreciation of the fundamental soundness of the policy I am recommending.

National advertisers say, in effect, that the mere fact a product is being successfully advertised is a guarantee of the merit of the article.

THE MARKET MASTER is the name of a weekly paper published by THE CINCINNATI POST which it distributes free of charge to retailers in Cincinnati. The object of THE MARKET MASTER is to educate the dealers in better merchandising methods and to insist that advertised goods be furnished customers rather than "just as good" substitutes.

THE POST of course, is not a philanthropic institution. THE POST is not indulging in such an expensive luxury as the publication of this weekly for mere glory. It uses its distribution of THE

MARKET MASTER as a means of inducing national advertisers to advertise in THE POST.

A recent issue of THE MARKET MASTER contains an article by H. A. Groh, written for the purpose of convincing retailers that they should handle advertised products because such articles are a protection to the consumer. The article, while it appears in a retailer's paper, is really addressed to consumers.

NOTHING CAN SUCCEED THROUGH ADVERTISING UNLESS THE ARTICLE ITSELF HAS MERIT

"Advertised goods protect the consumer," says Mr. Groh. "Advertising does more than introduce new ideas to you. It safeguards you in the purchase of any advertised product. You can depend upon it—nothing can succeed through advertising unless the article itself has merit. Advertising a bad product will make just as many enemies for that product as advertising a good product will make friends for the good product. And so, if an article has been widely advertised for a long time, you can be sure that it is good or the public would never have supported it. You know that the advertised and trademarked product must have a definite quality and must be fully worth the price. You can be sure that you get more real value in an advertised product for every penny you spend, than you will in an unadvertised product, because advertising is the cheapest selling method there is."

In the good old days when patent medicine advertising flourished like the green bay tree, these nationally advertised fakes greeted readers in the pages of the most respectable of magazines. There were proprietary remedies in those days, just as there are some today, which were articles of merit. But the conspicuously successfully advertised patent medicines were "bad products" to use Mr. Groh's term.

According to Samuel Hopkins Adams they (and their advertising) constituted "The Great American Fraud."

Now if what Mr. Groh says is true, the more these "bad products" were advertised, the quicker they should have disappeared from the market.

But the exact reverse was what took place. For literally centuries some of these fakes had been advertised. Some of the best known of these frauds had been advertised to the American public for decades. The more they were advertised, the greater was the public demand for them.

They had been exposed time and time again. The exposé was drowned out in a flood of advertising.

But when Norman Hapgood in COLLIER'S WEEKLY shamed the publishers of the country into shutting these fakes out of their advertising columns, they collapsed one after another. The advertising, instead of driving them off the market, as Mr. Groh claims, kept them on the market. The moment the advertising was shut off, these "bad products" faded into innocuous desuetude. As merchandise they could not sustain their sales.

I am citing this not for the purpose of suggesting that nationally advertised products are akin to these arrant frauds, but solely for the purpose of proving beyond the question of a doubt that *the national advertising of a product has absolutely nothing to do with its quality,* and that national advertising is a force which can be successfully used to sell all grades of a product—good, bad or indifferent.

National advertising is no substitute for the need of studying merchandise itself by the retailer and the consumer.

The advocates of national advertising who claim that "nothing can succeed through advertising unless the article itself has merit," reason as follows:

1. The public stops buying products which are not equal in merit to the representations made in advertising them;

2. The trademarking and advertising of products enables the public to identify unsatisfactory

products, and to check each product against the claims made in advertising it;

3. Therefore a manufacturer who makes a bad product and advertises it to the consumer will be driven out of business because, while the public will purchase the product once, it will not repurchase it.

There is only one thing wrong with this reasoning: the major premise is not in accordance with facts. What the public *ought* to do is assumed to be the same as what the public *does* do.

It is a notorious fact that the public continues to buy poor products year after year when better products are available, either because it is unable to judge of the quality, or because the amount involved in each purchase is not sufficient to induce the consumer to reason about the purchase each time it is made. It is possible to indefinitely sell over-priced, inferior, and even worthless merchandise if the advertising campaign be large enough and shrewd enough, and the article itself not sufficiently important for customers to carefully weigh the question of its merits each time it is bought.

Upon this subject what more can I do than to quote the words of so authoritative a judge of merchandise values as Edward S. Filene, of William Filene's Sons, Boston: "I want to put it down as a conviction which has grown out of all the experience of my years in business, that *poor values can be sold by large, persistent advertising.* Witness the immense sale of patent medicines. It is simply a question of psychology—the hammering into people's minds of a certain idea until finally they accept it. If the sacrifice to accept is it not so big as to make a constant reinvestigation of that idea necessary—and that is the important part; if it is a thing in common use, that is not extraordinary in price, that does not force them each time to think out whether they should buy it or whether they should stop and consider if they are really getting full value and really paying only what it is worth, they will submit to the suggestion hammered into their consciousness until it has become almost a part of themselves—that a certain thing, at a certain price, is the best value in the market.

"We ought not to do anything that will stand in the way of younger men growing up, with their newer and more up to the times ideas getting their chance. But they do not get their chance when the market is pre-empted by trademarked articles with the advantage of enormous profits and enormous funds to advertise back of them, so that by constant hammering of their names into the public mind those articles get such possession of the buying public that reasoning buyers do not use ordinary reasoning and caution in purchasing them, and buy them because of their advertising, although they may have been reduced in quality or they may have been reduced in weight.

"While all this is happening, and the old trade-marked thing is at least tending to deteriorate, there are being produced other articles—by younger, more efficient, better educated, better trained men—better for the public to buy in quality and design and all things, and the public does not buy them because there have been such enormous profits in the trademarked article that the public has been advertised and talked to and plied with booklets until they have come to believe that this article has superiorities that they, not being chemists and analysts and so forth, cannot find out that it does not possess."

AN ADVERTISING AGENCY'S UNFLATTERING PICTURE OF THE PUBLIC'S INTELLIGENCE

George Batten & Company of New York, one of the largest advertising agencies in the country, had this to say upon the ease with which the public can be fooled, in a four-page advertisement in PRINTERS' INK:

"Brown in Boston—White in New York.

"Public buying habits take queer streaks.

"In Boston the housewife insists on big brown eggs and will pay an advanced price for them.

Mrs. New York must have white eggs, and the wily dealer sorts his eggs and extracts several cents a dozen more from his patrons for his pale-face eggs.

"Thus an old notion handed down from generation to generation forms public opinion as to eggs. It regulates egg commerce.

"Any woman on cross examination will probably admit that an egg is an egg the world over, be it brown or white. The next day she will go out and insist on having either white or brown eggs.

"Certain manufacturers who advertise enjoy the same advantages over their competitors as does the little brown hen that lays the big brown egg for Mrs. Boston. They have sensed the fact that the public buys with unreasoning insistance the product with familiar markings, even though it does not know why. Many advertised articles occupy a pedestal because of superior outstanding qualities. But there are unquestionably advertised goods, largely purchased, which have no striking advantage over other goods of equally high quality, except that they are better known and more accessible.

"Brown eggs or white eggs are better in public opinion according to what the public has been led to believe. So it is with merchandise. Favorable public opinion for a commodity usually exists in proportion to the insistence and persistence with which the product is advertised.''

Here is admission of the fact, by an authority whom all national advertisers will accept, that an article does not have to be superior to others in order to be successfully advertised.

If it can be profitably advertised in spite of the fact that it is not superior, then the mere fact that an article has been wisely advertised for many years is no assurance whatever of the superiority of that article to the competitive articles which have not been advertised as much or which have not been advertised at all.

XVI

THE RETAILERS' OPPORTUNITY

In beginning this series of articles, I asked a number of questions. These questions have been answered from many different viewpoints.

One of the questions asked was, is it a good thing for the public to buy nationally advertised merchandise in preference to merchandise which is not thus advertised?

RAISING THE CONSUMER PRICE

I have shown that, if the national advertiser is successful, he has the power to raise the consumer price on his product.

Have national advertisers exercised this power?

In most lines, nationally advertised goods are undoubtedly more expensive than goods of the same grade which are not advertised. In clothing it may only be ten per cent. more than the price which the garment would command ordinarily. In foods it is frequently one thousand per cent. more.

In theory, the advertiser's "saving on production and overhead" are supposed to pay for the national advertising.

In practice, the advertiser makes the public or the retailer pay not only the cost of the advertising, but also a dividend upon his capitalization of the "good-will" created by advertising.

On this score of price alone, it is not a good thing for the public to buy the nationally advertised product. This, however, is not the only reason why the question must be answered in the negative, even after giving careful consideration to the various advantages which can be truthfully claimed for nationally advertised products.

THE SENSE OF VALUES DESTROYED

National advertising has destroyed the consumer's sense of values.

Originally values were fixed by the actual qualities that went into the material or making of a product. The consumer of today takes the product itself for granted if the label guarantees that it is the same as the product he has formerly used.

Among two products, both nationally advertised, the consumer judges mainly by price because he has no other measure of values.

MIS-EDUCATING THE CONSUMER

The consumer has today few chances of learning impartially about the actual merits of the products offered him, for the newspapers and magazines which he reads insistently preach in their reading columns as well as the advertising pages that he should "buy by the label."

We are a reading nation.

But the papers and periodicals we read are largely supported by national advertising. It would not be in human nature for the publishers of them to urge their readers to subject the claims of their advertisers to searching tests.

Unfortunately for the consumer, national advertising has been the creator of merchants and sales clerks who know little or nothing about the merchandise they sell. Instead of the consumer being able to rely upon them for guidance, the retailers who handle nationally advertised products have become mere slot-machines which deliver automatically the various labels and packages for which the consumer asks.

ARE CONSUMERS SATISFIED?

Instead of the consumer being pleased, especially in those lines in which national advertising is dominant, with the practical elimination of the retailer as a selective factor, he has become increasingly resentful of the higher prices which he pays under the present régime, and less and less satisfied with the prices which the retailers insist they have to charge.

Consumers buy from retailers. They have no direct contract with producers.

The very fact that they must visit their resentment first of all upon the retailer, constitutes a real opportunity for retailers to secure for themselves a far better relationship both with those to whom they sell and with those from whom they buy.

THE PUBLIC DISTRUST OF THE MIDDLEMAN

In spite of the fact that the retailer is so well established a factor in present day civilization, he still labors under the odium which the public attaches to those who are "middlemen." This is the way R. H. Macy & Co. of New York once described the modern public's state of mind toward retailers:

"Barter is almost as old as civilization itself, but the modern method of retailing, like banking, is of recent growth. Both professions have struggled against unscrupulous practices within and misunderstanding without.

"When bankers began to loan out money at interest the opprobrium of the name 'money-changer' attached itself to them. But as their standards advanced they grew in public esteem and won an enviable place in the confidence of the community.

"Retailers as a class have quite recently, like the bankers of earlier days, run the gauntlet of bitter attack, but subsequent developments have proved that the criticism on the whole was unjustified."

Retailers can correct this criticism if they will. Not merely, however, by treating the public right in the matter of prices, for the modern public knows too little of values to be a competent judge of whether retailers' margins are excessive. Principally by educating the public about one fact in retailing which few merchants themselves fully appreciate: that *success in retailing is not dependent so much upon large margins of profits as upon large numbers of permanent customers.* The retailer who sells his customers on this fact, wins their confidence. He will not mislead them about his merchandise because it is not to his interest to do so.

WINNING THE CUSTOMER MAKES THE RETAILER INDEPENDENT

Retailers who succeed in that, automatically eliminate most of the criticism about their prices, since their customers then realize that retailers as a whole simply pass along increases and decreases to the public.

But to have some measure of control in buying their merchandise, they must teach the public to buy on a merchandise and not a label basis. They must talk to the public about grades of merchandise, rather than about brands of merchandise.

In educating their customers about how to buy merchandise, they at the same time make it possible for themselves to buy upon a merchandise basis, and not upon a basis of consumer demand created by national advertising.

The retailer is thus enabled to buy merchandise at its true value in the open market. He can put upon it a margin of profit which his experience proves necessary, instead of operating on the margins which national advertisers allow him. For the same reason, he is then able to determine for himself the quantities he buys on at least an equal basis with manufacturers, instead of having national advertisers fix them arbitrarily.

With customers educated to buy merchandise instead of brands, he needs only to carry a stock consisting of the various grades for which his trade calls. He may actually carry a larger quantity of each of these grades than he would carry of each of a number of advertised brands, and yet have a smaller stock as a whole. Not only would his turn-over be more rapid, but his lines would be more complete.

PRESENT DAY LIMITATIONS OF THE RETAILER

Under present conditions it is almost impossible for retailers to more than strive toward these conditions.

The public is so accustomed to having the advertised brands handed out that it must first be re-educated.

Each individual retailer can, however, educate his own customers. The educational process must begin, not with the customer, but with himself and his clerks. No sale should be considered a really finished sale unless the customer is made familiar with the technical reasons why the merchant sells that particular article. The more familiar the customer becomes with materials, workmanship, qualities, etc., the easier it is to satisfy him with good merchandise regardless of the label which it carries.

In addition to what the individual retailer does with his customers, the retailers' associations can do a great deal to bring about a better appreciation by the public of the work which retailers do. If the associations once appreciate that they can act in unison to improve and standardize the merchandise they sell, without affecting in the least their margins for profit, they would find great scope for useful activities which would mean better merchandise for their customers, and public appreciation of a public service by the retailers.

To serve the public more and more is really the retailer's opportunity to free himself from the pressure put upon him by national advertising.

PART III

MANUFACTURING AND NATIONAL ADVERTISING

XVII

MANUFACTURING AND ADVERTISING

The marketing of his product profitably is, under present conditions, the problem of problems for the manufacturer.

The average manufacturer is apt to give serious thought to the subject of national advertising only when the matter is put up to him as something that he should undertake in his own business. And he is then apt to think of it simply as a question to be decided solely from the standpoint of, Does it pay?

Yet the subject deserves the most serious consideration of every manufacturer, quite without regard to whether he himself is an actual or prospective national advertiser.

The growth of national advertising has affected the marketing problem of all manufacturers.

If a manufacturer's competitors are national advertisers, of course the matter is of interest to him. The question of whether he should follow their example or adopt some other method of meeting this sort of competition certainly deserves consideration by him.

But even through none of his competitors are national advertisers; even though his line may be one which it has been conceded "cannot be advertised," there is still reason for giving the subject thought. For if a single line of industry indulges in national advertising, the question of whether that industry is stimulating consumer expenditure in its line, and proportionately decreasing consumer expenditure in all other lines, requires the consideration of every manufacturer.

The spread of national advertising, therefore, raises three questions for the consideration of a manufacturer:

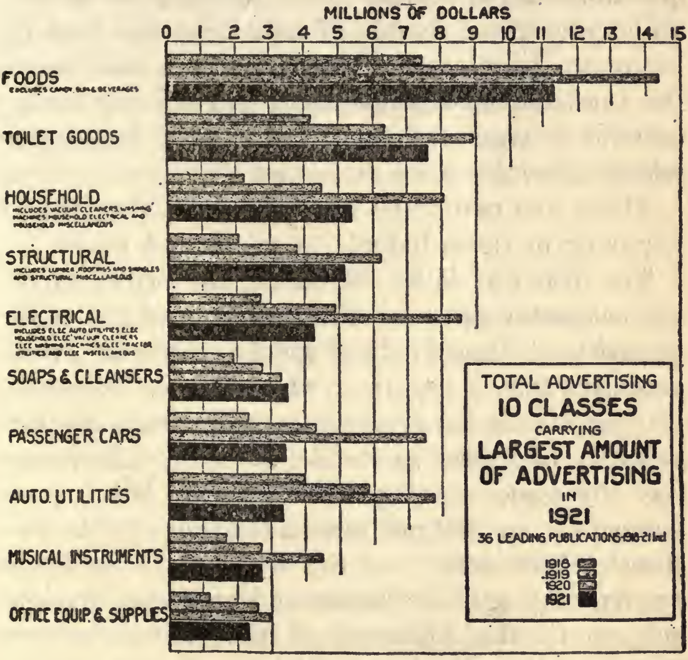
First, should he become a national advertiser?

Secondly, what should he do if any of his competitors are national advertisers?

Thirdly, what should he do if manufacturers of other lines of products are by their national advertising securing business to an extent which reduces demand for his line?

THE NATIONAL ADVERTISING INDUSTRIES

In the course of an address before the National Piano Manufacturers' Association, Charles Coolidge Parlin, of the commercial research division of the Curtis Publishing Co., Philadelphia, made use of the following chart, which shows the relative extent to which national advertising is used in marketing the products of the various industries of the country.



If national advertising is a force capable of influencing consumers to expend their earnings in accordance with the will of the advertisers, then these ten classes of industries are tending to divert business from those industries not included in the chart to those industries engaged in heavy advertising. That this actually takes place has been the argument which has been used as the basis of most co-operative advertising campaigns. Before we can undertake to answer the three questions asked above, it is necessary to understand why these classes of industries are leading national advertisers. Incidentally, we shall learn the truth about whether their advertising really influences trade adversely to those industries which advertise little or not at all.

There are two ways in which the national advertising of these industries can deflect trade.

The first way is by increasing the prices which the consumer pays for the purchase of the same quantity of these kinds of goods. This way presupposes that a consumer who has been spending $50 per month for groceries, and buying a certain quantity of groceries for the money, continues to buy the same quantity of foodstuffs, but is persuaded to pay $60 per month for them by the national advertisers. As the consumer's earnings are fixed by outside factors and are therefore not subject to the influence of the manufacturers whose products he buys, if he spends $60 instead of $50 for groceries, he will have $10 less to spend for other things.

The second way in which these industries can deflect trade from the non-advertising manufacturers is by persuading the consumer to buy a greater quantity of the advertised products than he would otherwise buy. This means that if the consumer bought $50 worth of groceries originally, he is persuaded to consume, let us say, a 20 per cent. greater quantity of groceries than before. He would thus spend $60, and, as before, would have $10 less to spend. If, at the same time, he paid higher prices for the advertised products, he would spend about $70 per month instead of $50, and the deflection then would amount to $20 per month.

THE PART PLAYED BY THE RETAILER

The argument described above would be sound but for the part played by the retailer in distribution.

If all classes of retailers were mere delivery agents for the manufacturers, nationally advertisers could divert trade in proportion to the extent to which the various classes of industries advertised. But they are not. The retailers, as we have pointed out, actually influence the purchase of merchandise much more than the national advertisers. The question really, therefore, hinges upon whether the various classes of retailers influence the consumer in the same direction as do the national advertisers.

Instead of working in the same direction, the retailers actually influence the consumer in inverse proportion to the extent to which the manufacturers advertise.

I mean by this that in those industries which are listed on the chart, the retailers and dealers do least to influence consumer expenditure, while in those industries which are not on the chart, the retailers powerfully influence the expenditures of consumers.

And this is only natural, because the success of the national advertisers more or less involves the atrophy of the selling ability of the retailers who handle their products.

XVIII

"ADVERTISABILITY"

Why is it that the volume of national advertising of food products is so much greater than that of men's clothing?

Why is there so much more advertising of soaps and cleansers than of women's wear?

One would imagine that the amount of national advertising in each industry would be roughly proportioned to the relative size of the various industries. Why is it that the relative volumes of their advertising, as shown by the chart in the previous chapter, is not distributed in this way?

In chemistry there is a law, known as Mendeleef's periodic law, which states that all natural elements arrange themselves in groups in accordance with their specific gravities.

The answer to the question asked above is found in a somewhat analogous principle, *that the various industries indulge in national advertising in proportion to the "advertisability" of their products.*

Advertisability may be defined as the quality in a product which enables it to be successfully advertised to the consumer. The more advertisable a product is, the greater is the temptation of the makers of it to nationally advertise it.

Since food and soaps are more freely advertised than men's clothing or women's wear, it is plain that food and soaps must be more advertisable. It is of vital importance for a manufacturer to know just how advertisable his product is, because as the advertisability of a product decreases, the hazard of the manufacturer who undertakes to nationally advertise it increases.

A national advertising campaign is hazardous at best. With a product that is deficient in advertisability, it becomes extra hazardous. To appreciate just how perilous advertising is; to vividly see how many such campaigns fail, pick up a copy of some national magazine of fifteen or twenty years ago. The advertising pages read like tombstones in a cemetry; monuments recording the graves of advertising campaigns; lists of firms which have failed or which if still in existence, have miraculously survived their losses.

There are advertising agencies that solemnly assert that every product is advertisable.

One such agency inserted a double-page advertisment in PRINTERS' INK with the heading, "Is There Anything Unadvertisable?" It followed this with an argument designed to prove that everything from soup to cast-iron is advertisable.

There is, however, a very real difference between what may be nothing more than effective publicity, and successful advertising. Publicity may succeed in making the public familiar with what a manufacturer has to offer. When a manufacturer indulges in national publicity, it does not make a particle of difference how effective his campaign may be—it is beyond his powers to calculate his profits in dollars and cents from it. It may gratify his vanity, but that does not alter the stubborn fact that his business would have been just as successful had he indulged in no national advertising at all.

Successful advertising, on the other hand, results in very tangible figures on balance sheet. Results must be apparent in dollars and cents or the advertising cannot be said to be profitable.

If a manufacturer, who contemplates advertising to the consumer, wants to know in advance whether his campaign is going to produce for him mere publicity, or whether his campaign is going to produce for him mere publicity, or whether it is going to produce profits that are visible in his books, he must first determine the degree to which his product is advertisable.

THE FOUR CANONS OF ADVERTISABILITY

The advertisability of a product is determined by four factors, all of which are involved in its distribution and sale to the ultimate consumer.

These four factors are, first, the margin for profit; the difference between cost of production and consumer price.

Second, the frequency of its purchase by the consumer.

Third, the variability of the consideration which determines the customer's purchase of it.

Fourth, the extent to which the dealer determines the customer's selection of the product.

A product is highly advertisable when it is "high" in the first two factors and "low" in the second two factors.

It may be advertisable if it is extremely high in only one of the first two factors, provided it is not also extremely low in either of the other two factors.

It is almost unadvertisable if it is low in the first two factors, even though it may be low in the last two factors.

It is absolutely unadvertisable if it is low in the first two factors and high in the last two factors.

XIX

ADVERTISABILITY—THE MARGIN FOR PROFIT

By the margin for profit I mean the difference between the manufacturer's actual cost of producing the product and the price which it is possible to secure from the public for it.

The actual cost of production includes the raw materials, the labor, the manufacturing overhead, and a reasonable profit on the investment needed for production.

If the public is now paying, or can be persuaded to pay, about five times this production cost, the product is probably advertisable.

If a product costs 10 cents to make, and the public can be made to pay 50 cents for it—then the difference of 40 cents will probably be sufficient to cover the cost of the national advertising, the manufacturer's profit upon his investment and cost of marketing it, and the wholesaler's and retailer's margins for handling it.

If it can be sold for more than 50 cents, let us say for $1 or $2, then it is almost certainly advertisable.

On the other hand, if the price which the consumer can be persuaded to pay is less than five times the production cost; if it is only two or three times as much as it costs to make it, it cannot be profitably advertised, unless the frequency of purchase tends to offset its defficiency in margin for profit. As we shall see, frequency of purchase may make it possible to advertise an article upon which the margin for profit is comparatively low.

What has been so far said concerning margin for profit has disregarded the apportioning of selling margins of wholesalers and retailers. This is a consideration of great importance when a product is marketed without national advertising. It is still important, though not nearly of so much importance, when it is nationally advertised, because the national advertiser soon learns that if he "puts over" a successful campaign, he becomes the arbiter of these margins. They are largely removed from competitive influences.

He can very readily reduce the margin of the wholesaler to a mere fraction of what is customary for unadvertised products in the same line, because he can always go over the head of the wholesaler and either take orders through specialty salesmen or establish his own wholesaling organization.

And, of course, he can reduce the margin of the retailer and invent for the retailer's entertainment the theory that it is easier to sell his advertised product than other merchandise which is unadvertised.

If the manufacturer's advertising campaign has been really effective, it is not difficult to make the retailer concede the truth of this.

It is then easy for the manufacturer's salesmen to make the dealer overlook the fact that, while he may sell the advertised article with less effort (and less profit), if his customers spend more with him for the advertised product, they will have less to spend with him for other merchandise.

XX

ADVERTISABILITY AND FREQUENCY OF PURCHASE

Of equal importance with the question of "margin for profit" in determining the advertisability of a product, is the frequency with which consumers purchase it.

The manufacturer of rugs and carpets cannot advertise his products to consumers profitably largely because of the infrequency with which they are purchased. The average consumer of rugs buys them rarely. They wear for decades—even the cheaper ones, and the better ones become family heirlooms which are used by more than one generation. It is therefore almost impossible for the advertising manufacturer to sufficiently impress consumers, who are in the market for rugs and carpets only a few times in their lives, to make them "look for the label" when buying.

But as the frequency of purchase increases the product becomes more and more advertisable.

Flour, for instance, is purchased very frequently. It is therefore advertisable, in spite of moderate margins for profit. While the margin for exploitation on each sale may not be as large as on a breakfast food, the aggregate of the profits made upon the sales to each consumer persuaded to buy it is sufficient to justify its being advertised. A product like a breakfast food, with a margin of profit of twenty, thirty and forty times its cost of production, and with a high frequency of purchase, makes an ideal product for national advertising.

A patent medicine is, for the same reasons, high in advertisability, especially if it has only psychological curative properties. The consumer buys the medicine frequently because it makes him "feel" better, and since it does not cure him, he keeps on buying it just as long as his faith in its virtues persists. If the medicine has a strong percentage of *spirits frementi,* or any ingredient which is habit forming, he finds it unpleasant to stop using it.

Anything that is habit forming, and therefore frequently purchased, is almost certainly advertisable. This is the real explanation for the enormous profits in certain conspicuously successful advertised beverages, and why the "goodwill" and name of one soft drink is reputed to be worth five million dollars. Of course, beer and whiskey, in the days before prohibition, were among the highly advertisable products for this reason.

Manufacturers who have discovered the importance of frequency of purchase have artificially increased this factor in their products, by packing them in smaller cartons. The makers of foods and soaps have steadily encouraged the public to purchase small packages and purchase them frequently.

On the other hand, articles of wearing apparel and items in dry goods are not frequently purchased. While the average consumer may shop in clothing and dry goods stores frequently, the purchases are distributed over a vast number of items, most of which are used and worn for many months before they must be repurchased.

The average overcoat and suit is worn more than one season. Once upon a time they used to last a lifetime. In spite of the emphasis upon the "style" element in men's clothing, and the introduction of seasonable variations in cut and fabrics, men buy clothing on the average only two or three times a year. While it is easier to make them remember the name of a certain brand of clothing than it is to make them remember a certain brand of rugs, it is much more difficult for advertisers to achieve either of the above results than for them to make the women remember the name of a brand of soap which they buy every week.

Frequency of purchase is therefore an important element in determining advertisability for two reasons; because it makes it easier to create in consumers the habit of asking for a brand or label, and because it supplements or offsets any deficiency in the margin for profit on a product.

To appreciate the importance of this second influence, a few words of explanation are needed.

When a manufacturer advertises, his advertising creates for him, if it is successful, a body of consumers who ask for his brand. Let us assume that he spends \$100,000 a year, and that he succeeds in securing from his campaign 100,000 customers. He has therefore invested \$1 in each customer that year. To make his advertising profitable he must sell the customers on the average enough of his goods within a year to cover his advertising expenditure. If his article costs him 10 cents, and it is sold to the consumer for 50 cents, he will lose money if the customer buys only one article a year.

But if the customer buys it frequently in the course of a year, let us say 12 times, he can make a handsome profit upon his advertising expenditure. The 12 articles would cost him \$1.20, and the advertising \$1.00—a total of \$2.20 per customer per year. As the customer would pay \$6.00 for the products out of which the manufacturer would probably get $4.00, the rest going to the distributors, it is plain enough that the more frequently an article is purchased, the greater are the chances for profitably advertising it.

XXI

ADVERTISABILITY AND THE CONSIDERATION WHICH DETERMINES THE CUSTOMER'S PURCHASE

Strange as it may sound, a specialized staple makes the best product for national advertising. This is the reason so many nationally advertised products prove upon analysis to be staples which have in some way been converted into specialties.

Soap, for instance, is a staple. To make it a specialty, all the soap manufacturer has to do is to distinctly color it, scent, pack it, or flake it, so as to make it "different" from other soaps. Yet it remains a staple in spite of these artificial differences, because once people buy it they will continue buying it indefinitely.

In the case of a toilet soap, for instance, we know that the consideration which determines the customer's purchase of it is the cleansing power of the soap. As long as faces and hands continue to get dirty, toilet soaps will be purchased for this same reason. The consideration which determines the customer's purchase is therefore a stable one.

This is a very important, though a little understood factor, in determining the advertisability of various products. If a manufacturer wants to base an advertising campaign upon sound study and reasoning, he must determine whether the consideration which decides the customer in buying his product is fairly constant, or whether it is something which fluctuates from season to season. But before it is possible for him to determine whether it is stable or unstable, it is necessary for him to learn the deciding consideration of the customer.

The deciding consideration of the customer varies with nearly every product bought.

In the case of women's coats and suits, as in the case of nearly all women's outer wear, the deciding consideration is never stable. Into the determination of the customer's purchase of a coat or suit comes the element of style, which cannot be stabilized. No matter how much a manufacturer may advertise his garments, no matter how successful his advertising may have been, the majority of women will ignore the labels in the garments shown them in the stores while trying to pick and choose one with a style which they feel most becoming.

The style, pattern, design element plays an enormous and generally unsuspected part in wrecking many national advertising campaigns.

When a manufacturer, whose product is one which is purchased by the public because of some such element, becomes a national advertiser, he adds to all the ordinary risks of a hazardous undertaking a handicap that is almost insurmountable.

Millinery, dresses, skirts, suits, coats, in fact, most of the things which women wear, are either entirely absent from lists of leading nationally advertised products or so far down the list as to be comparatively negligible.

Furniture, in which the design is the determining consideration in sale to consumers, cannot be nationally advertised for this reason. Wallpaper, carpets, rugs and most textiles, in which pattern is the determining consideration, are not nationally advertisable.

It may be laid down as an almost absolute rule that to the degree to which style, pattern or design, determines the purchase of a product, to that degree is it difficult to advertise it.

Women's hosiery is a product which conforms to most of the canons of advertisability. There is an ample margin for profit; the frequency of purchase is satisfactory; the dealer is used to handling advertised brands, and for many years the style element was not the determining consideration in the purchase of hosiery by women.

In the last few years, however, styles have begun to play a part in the purchase of hosiery.

The nationally advertised brands have had to keep up with the styles, or run the risks of losing their customers.

If a certain manufacturer did not make sheer silk hosiery when that was decreed by fashion, and a woman who had been in the habit of buying her hosiery was out to buy the new sheer style— is there any doubt that she would have bought that style irrespective of the brand on the box from which it was selected?

There is no question but that if hosiery were to be altogether purchased by style, the volume of hosiery advertising would shrink as the manufacturers discovered that their product was less and less advertisable.

XXII

ADVERTISABILITY AND RETAILER INFLUENCE

The greater the extent to which the customers' selection of any particular product is influenced by the retailer, the less advertisable is that product.

There are many products, like Castoria, which the customer determines to buy before getting into the store, and with the selection of which the retailer has therefore almost nothing to do.

The manufacturer, through his advertising, sells the product to the consumer.

The retailer merely delivers it upon request.

Of course some druggists do make the effort to sell equivalents or substitutes to those who ask for Castoria. The American Druggists Syndicate makes a whole line of "substitutes" which members of this cooperative organization sell to customers who ask for the nationally advertised preparations. In spite of this competition, it remains a fact that the overwhelming majority of druggists perform a mere mechanical service with regard to the products they sell, and this adds to the advertisability of drugs and explains the attractiveness of this field for the national advertiser.

What is true of proprietory medicines is true of toilet goods, of groceries, of soaps and washing powders, and of most of the nationally advertised products—the retailers through whom they are sold perform the functions of vending machines and thus increase the advertisability of the products sold by them.

When we come to an altogether different class of retailers—the clothiers and furnishers, the cloak and suit stores, the dry goods and department stores—who still merchandise and take advantage of every opportunity to influence the customer's selection of the merchandise he is buying, we find that many of the products which have to be sold through them are difficult to advertise to consumers. They are less advertisable than products sold by grocers, druggists, and similar retailers.

The manufacturers of products sold by these retailers are not as heavy national advertisers as those whose products are sold through dealers who do little to influence customer selection.

The action and reaction of these two forces—the national advertisers and the retailers—has resulted in the development of two distinct selling policies by the manufacturers.

In the case of those products which are handled by retailers who simply hand out what the public asks for, the policy is to get the product on the shelves of every retailer so as to put no resistance in the way of consumers getting the product in which they have become interested through advertising.

An interesting sidelight upon this policy is the tendency of national advertisers, whose products normally are distributed through retailers who "sell," to break away from these retailers and get their products sold through less difficult channels. The makers of Ingersoll watches, for instance, in order to get away from the limitations imposed by the jewelers, put their watches on sale in all sorts of stores—drug stores, stationery stores, hardware stores—any kind of store where the retailer was willing to hand out the merchandise asked for instead of having something to say to the customer concerning the wisdom of what the national advertiser was persuading him to buy.

The other policy was applied by the national advertiser to those products which had to be sold through retailers who insisted upon merchandising them rather than merely vending them. This was the policy of the exclusive agency. And it has helped to make many products nationally advertisable, which, but for the opiate thus administered to the merchant, could not be profitably advertised.

The principal elements which enter into the advertisability of products and which should be given consideration by a manufacturer who is contemplating the national advertising of his product have now been covered.

If the product has an ample margin for profit and is frequently purchased, and if the consideration which determines the consumer's purchase is not too unstable and the retailers are willing to "vend" the product, it can be nationally advertised profitably.

A manufacturer whose product does not sufficiently meet these requirements can sometimes slightly change his product and thus make it advertisable.

If his product is a standard product—one of those staples which have been evolved by years of test and trial—he can sometimes make it advertisable by departing from the standard. He can introduce some slight innovation, which may be of no particular importance, but which may enable him to increase his margin for profit by convincing the public through his advertising that the variation makes the product more valuable. If it is a product which can be packaged, he can increase its frequency of purchase by packing it in smaller sizes.

Changes of this sort may in addition furnish him good "talking points," of which advertising copywriters will make the most, and thus give the public a vague feeling that his product is a superior one.

If he thus takes his product out of the staple and standard, he may gain if his advertising campaign is successful, while the only possible losers will be the public who will pay for his success, or the retailers who will be annoyed by the appearance of one more brand which must either be added to their stock or have to be offset by greater sales effort on what they already carry.

XXIII

WHEN THE MANUFACTURER SHOULD BECOME A NATIONAL ADVERTISER

In beginning the study of the question of national advertising from the standpoint of the manufacturer, I asked three questions.

The first question was, Should the manufacturer become a national advertiser? I have tried to point out the supreme importance of determining the advertisability of his product as a prerequisite to answering this question.

If his product is advertisable, or can be made advertisable, and he can finance an advertising campaign, most advertising agencies will urge him to make the venture.

In spite of the fact that the day for inexpensive and comparatively easy advertising successes have passed, he may make a success of his campaign. Before the present era of 1,000,000 circulations and full page advertisements, the cost of creating adequate consumer demand was a fraction of what it is today. This is something which the manufacturer should not forget when advertising men point to some of the great reputations created by advertising. How long ago were these reputations created? Is it probable that a similar reputation can be profitably created at present-day costs of advertising? Above all, is there any other effective way by which he can meet the competition of the national advertisers already in his field?

We shall see that there are other effective methods, and that manufacturers can decide not to advertise to consumers not merely from a negative standpoint, but actually from a positive standpoint. We shall see how this question can be answered in the negative by a manufacturer who deliberately adopts a policy that he thinks is more profitable for himself than advertising to consumers.

THE MANUFACTURER AND HIS ADVERTISING COMPETITORS

What should a manufacturer do if he is ambitious to develop his business and finds that many of his leading competitors are national advertisers?

The first thing for him to do is to discount the glamor which surrounds every advertising success. This is imperative if his judgment is to be correct as to the question of whether the success was due to the national advertising, or whether the national advertising followed and was incidental to a success which was really the outgrowth of other policies.

A clothing manufacturer once told the writer a remarkable story to illustrate the glamor which advertising puts about a perfectly ordinary product. He had been for years associated with factories which made advertised clothes, and naturally was familiar with every operation involved in the making of the garments. He knew that the materials they used came from the same mills as those used by all clothing manufacturers; that their methods of production were no different, and the standards of workmanship no higher than in other factories producing equal grades, and yet he said *that he could not pick up a suit of clothes or an overcoat with one of their labels in it without feeling that it was in some subtle way different from ordinary clothing.*

This is a remarkable tribute to the power of the printed statement. We are all apt to feel that the men whose doings are frequently reported in the daily press, men ranging all the way from criminals up to statesmen, are in some way different from ordinary mortals. Familiarity with the famous and the notorious will convince any man that they are just as human, and frequently just as ordinary, as the average man.

What is true of men, is also true of products. The mere fact that they are advertised does not make them different, in spite of the "atmosphere" which printed claims puts about them.

For this reason, a manufacturer who is considering following in the footsteps of competitors who are advertising will do well to try to rid himself of the influence which has been described, and to remember that many manufacturers who have never spent a cent for national advertising make greater profits and have a sounder business than some of the leading national advertisers in the same line.

As it exists today, national advertising is a game to be played by financial giants only.

The increase in the number of national advertisers, the increase in the size of the space used by them, and the higher cost of advertising space, make enormous sums necessary if advertising by a new manufacturer is to be sufficient in volume to really create consumer demand for his advertised brand.

The fact that the great quasi-monopolies have gone in for national advertising is to a considerable degree responsible for this. Corporations like the Standard Oil Company, and its subsidiaries, and the various meat packing companies, are well able to use pages and pages of space, and they make it necessary for the other advertisers to compete with them in size of space used if they are to secure a hearing. These corporations were gigantic institutions before they spent a dollar for advertising; they have gone in for national advertising in part to hold their position, and in part to increase their margins on the products they advertise.

When a manufacturer who cannot afford to advertise heavily enough to really influence the consumer, nevertheless becomes a national advertiser for the purpose of "impressing his dealers," he must be sure that his dealers are a very unintelligent lot of business men.

If he hopes to really lead them into believing that a small appropriation will really create a consumer demand for his product, he will be in for disappointments. His salesmen will very quickly enlighten him about the importance which dealers attach to his advertising campaign. And the difficulty which so many national advertisers find in training their salesmen to talk about their advertising rather than about their merchandise, shows that salesmen realize that national advertising carries little weight with merchants except in the case of the conspicuous leaders in each line.

THE COMPETITION BETWEEN INDUSTRIES

The rise of national advertising, with its accompanying concentration of consumer appeals in a few industries, has had a profound influence on the growth of those industries the products of which are not readily advertisable.

Just as there is competition within each industry (competing makers of the same product each trying to secure the bulk of the expenditures of the consumers for the product), so there is a competition between each industry and all other industries. Every industry is, so to speak, engaged in the effort to divert as much of the expenditures of consumers toward itself as is possible. The automobile industry, for instance, has grown enormously year by year since its inception. A great part of this growth represents expenditures by consumers which have been diverted from industries making other products. But for the expenditures for automobiles, consumers would have purchased more or better food, clothing and shelter. The extent of the diversion is a matter of speculation, because the new industry may only absorb some of the annual increase in the earnings of consumers, and the total increase may have been large enough to enable the other industries to grow as well. But that the relative position of the various industries is changed is obvious.

An excellent example of how national advertising has thus diverted consumer expenditures is furnished in the summer underwear field. A large, effective and long continued advertising campaign by a single manufacturer of athletic underwear has greatly reduced the relative demand for knit underwear. The advertising of what was originally a mere specialty, has succeeded in convincing a great portion of the consuming public that athletic underwear is more suitable for summer wear than knit underwear.

But for the advertising to the consumer, the retailers would have performed essentially an educational function in advising their customers as to the relative merits of the two garments.

With the consumers persuaded by the national advertising of the athletic underwear maker to ask for his garments, the retailers find it difficult to do anything except follow the line of least resistance.

The relative sale of knit underwear has thus decreased year by year, and now the knit underwear industry is considering the use of national advertising for the purpose of correcting the unbalanced condition which, but for the national advertising, would never have developed. Fortunes must be spent—distribution must be loaded with additional costs—in order to try to reestablish normalcy. It is doubtful, however, whether adding any amount of fuel to a fire that is already burning briskly will tend to check the fire itself.

It does seem absurd to one who has resisted the glamor of this age of national advertising, that staple fruits like apples and oranges should be advertised.

The producers of these fruits have suffered, as most farmers have suffered for years, from an out-of-date marketing system. The development of well managed marketing associations ought to be sufficient to correct these inequalities. But in the case of these fruits, just as in the case of underwear, the rise of national advertising has diverted the expenditures of consumers to other foodstuffs—to a vast array of seemingly less expensive packaged and trademarked food specialties. The public, especially the urban public, has consumed relatively less fruit in the past fifty years, for the very good reason that it was consuming greatly increased quantities of the food specialties which were being popularized through advertising.

A recent advertisement of the American Association of Advertising Agencies which has been published in newspapers all over the country, exults at the fact that the California Fruit Growers are now spending $1,000,000 a year for national advertising for the purpose of re-educating the consumers to the eating of fruit.

"A big part of the cost of living today," says this advertisement, "may be charged to lost motion, to slow, slipshod distribution of goods, and to old-style, wasteful selling methods."

Presumably the new style, rapid and economical method of distributing goods requires national advertising.

For nearly fifty years there has been a steady increase in the volume of advertised goods. During those fifty years, if this advertisement is correct, distribution costs should have come down. Instead, they have risen steadily and are now more than twice as high. And yet we are told that the remedy for high distribution costs is to increase the volume of national advertising!

In spite of having answered the question in the affirmative for years, the advocates of national advertising still have to answer the question constantly being put to them by manufacturers: "Would national advertising pay me?"

A really adequate answer to the question, however, requires something less superficial than citing the fact that other manufacturers made money while they were national advertisers. This does not necessarily prove that they made money because of their national advertising. To answer the question adequately a principle must be laid down which will apply to every manufacturer no matter what he produces; a principle by which he can test his own chances in national advertising.

The answer to the question has been outlined in the discussion of the question of advertisability.

A manufacturer's chances of profitably advertising to the consumer is fundamentally dependant upon the advertisability of his products.

If his product is a drug or food specialty, his chances are fundamentally good, because of the advertisability of these products. If he is producing women's wearing apparel, his chances are fundamentally poor, because of the low advertisability of the products.

We have already mentioned the fact that national advertising is hazardous.

More national advertising campaigns fail than succeed.

The manufacturers who have lost money in advertising ventures greatly exceed in numbers those who have made money. This is because to all the ordinary risks of business, the national advertiser adds a whole series of risks over which he has comparatively little control.

First of all, the basis of his competition changes. He no longer competes in production, but competes in advertising. And as one advertising man puts it, "he will win or lose primarily upon the strength and clarity of his argument, not upon the virtues of his proposition." He may be producing a first rate product, and so efficiently that he can offer a good value, but if he selects the wrong advertising manager, or the wrong advertising agency, if his advertising plan and his copy are not right, if the wrong mediums are selected or the space used is inadequate, the effectiveness of his campaign may be so reduced as to make him a loser in the competition with other national advertisers in his line.

But equally important is the changed relationship which he establishes with distributors. As a writer said on the subject of "What To Do Before Advertising," in PRINTERS' INK: "To prospective advertisers I can only say this: the man who has only come into contact with his jobbing or retail trade steps into an entirely new field when he begins to advertise to the consumer. The sales arguments he has been accustomed to become useless. He must create new ones to meet new conditions."

The new sales arguments which he creates he addresses to the consumer in his national advertising.

He no longer sells to the retailer. He has merely to arrange with him for the handling of his product.

XXIV

THE ALTERNATIVE TO NATIONAL ADVERTISING

New recruits to national advertising are every day basing their decision upon favorable opinions with regard to the questions discussed previously.

Other manufacturers are every day basing their decisions not to advertise nationally upon unfavorable opinions concerning the same questions.

It is, however, possible for a manufacturer to decide against national advertising because he deliberately adopts an alternative policy.

This is the policy of frankly recognizing that the retailer, under the competitive system, stands in relation to the manufacturer and jobber as the representative of the consumer, and that it is therefore the manufacturer's business primarily to manufacturer and the retailer's business primarily to sell. Such a policy is the exact reverse of that described in the last chapter, as the manufacturer will win or lose on the virtues of his proposition and not on the plausibility of the copy which is addressed to the consumer by his advertising department.

If the manufacturer tries to sell the retailer on the merits of his proposition, he will start talking about his merchandise. He will have to sell the retailer on quality, price and value. He will base his claims about the resalability of his product —for after all the retailer buys only to resell— upon the intrinsic worth of the merchandise itself, and not on the consumer demand which may or may not materialize from his national advertising.

He may not be able to sell his product to the retailer with as great a margin for profit as that which the national advertiser in his field secures.

But once he gets a customer, it is to that merchant's interest to sell his product to the consumer rather than the competing product of a national advertiser. This is certain to be the case whenever a manufacturer, who does not advertise, frankly recognizes that he must put into the merchandise qualities which will plead his case more eloquently than any amount of mere sales talk by his salesmen.

If he devotes his best thought to putting value into the merchandise he manufactures, he not only holds the retailers who are already his customers, but he will put into his salesmen's hands cards which national advertisers cannot trump so long as they continue selling their national advertising rather than their merchandise to dealers.

In such selling as has been here described, the customer is of more importance than the sale. The sale places the merchandise in the retailer's store, but the merchandise itself must win or lose the customer for the manufacturer.

This is not only true of the manufacturer in regard to the retailer. It is also true of the retailer in regard to the consumer.

But it is not true in the case of many nationally advertised products. The national advertiser, of course, likes to hold his retailers. But his hold upon them, if he is a successful advertiser, is based upon his ability to sell and continue selling the consumer through his advertising. His merchandise is merely a convenient peg upon which to exercise his advertising skill.

A PLATFORM FOR MANUFACTURER, RETAILER AND CONSUMER

If I may be permitted, in an otherwise dignified discussion to use a slangy, but very expressive word, I propose for manufacturers, as an alternative policy to national advertising, frank acceptance of a platform upon which the manufacturer, retailer and consumer can all stand together. The first, and last and only plank in this platform is: "Merchandise and no bunk."

In an age of high pressure salesmanship, business men are prone to assume that no matter how good the merchandise, nor how attractive the value, skillful and expensive selling machinery is absolutely essential if merchandise is to be sold.

Emerson said that if a man makes a better mousetrap than any other man, even though he lives in the woods, the world would make a beaten path to his door.

Today we correct Emerson and say that if a man can advertise his product more persuasively than any other man, the world will make him rich beyond the dream of Crœsus.

Yet it remains a fact that probably a hundred times as many successes have been made by those manufacturers who produced merchandise of such quality and value that retailers and consumers did the advertising for them.

Advertising is at its best, a method of giving information. Generally, however, it is a method of boasting or crowing.

Of all the forms of advertising, I attach the least respect to national advertising because, except when it is used in the announcement of a new product, it is almost of necessity nothing much more than an artistic method of boasting.

If the definition of national advertising, trade advertising and retail advertising with which this book begins, be carefully studied, the reason for this will quickly become apparent.

These classifications of advertising are unlike those in common use, which generally classify it by the type of medium used, because my definitions are based upon the motive which underlies the advertising.

When we speak of newspaper advertising, magazine advertising, billboard advertising, trade paper advertising, street-car advertising, novelty advertising, we speak of mediums of advertising rather than of advertising itself.

A national advertiser may use all of these mediums for the purpose of doing national or consumer advertising.

A trade advertiser may use direct mail advertising, trade paper advertising or newspaper advertising and, without regard to the medium which he may use, still be doing trade advertising.

A retail store may use circular advertising, street-car advertising, newspaper advertising, and billboard advertising, and still be doing retail advertising.

A mail-order house, or a retailer with a mail-order department, may do magazine advertising and still be doing retail advertising.

It is the end sought by the advertiser and not the means by which he attains it that determines what kind of advertising he is doing.

RELATION OF THE THREE KINDS OF ADVERTISING TO MERCHANDISE

The natural objective of the retailer who advertises is customers. The merchandise he selects to advertise is that which he believes is most apt to attract customers to his store. His merchandising rather than his advertising determines his success or failure.

The trade advertiser (when he is not also a national advertiser) is almost entirely engaged in directing attention to his merchandise. His advertising is essentially an extension of the work of his salesmen, and enables him to carry the story of his product to a wider audience than he could otherwise reach, but an audience that is presumptively capable of expert judgment about his merchandise.

In one noteworthy aspect the general run of retail advertisements and trade advertisements are different from national advertisements: retail and trade advertisements generally deal specifically with the quality, price and value of merchandise; national advertisements generally deal with the conditions which can be brought about by the use of the product.

The leading advocates of national advertising recognize the danger of imposing upon the public with a system of selling to the consumer, who is technically unable to pass judgment on the merchandise and is persuaded to buy merchandise primarily on the reputation of the advertiser.

They dismiss this as of little consequence on the ground that advertising goods protects the consumer, and that nothing can succeed through advertising unless the article itself has merit.

XXV

SUCCESSFUL NATIONAL ADVERTISING

I have been trying in recent chapters to show two things: Firstly, that sound business requires frank acceptance by the manufacturer, retailer and consumer of a platform in which "back to the merchandise" is the most important plank. Secondly, that manufacturers, retailers and consumers have lost sight of the importance of healthy competition in merchandise values in the bewildering battle of brands, trademarks and labels.

What I have, in effect, been doing has been to criticise one kind of advertising—national or consumer advertising—while touching only incidentally upon the economic effects of trade and retail advertising. I have criticised national advertising, because it differs in its economic consequences from trade and retail advertising. It is necessary now to show just how national advertising differs from these other classes of advertising.

The economic consequences to retailers who distribute and consumers who buy advertised products is different in the case of products which are successfully advertised and products which are nationally advertised, but *not* successfully.

In the case of successfully advertised products, the consumer accepts the claims and statements of the advertiser, and asks for the advertised product. The question of whether the price is right or wrong hardly enters into the matter at all, because, if the advertising succeeds in developing consumer acceptance, acceptance is created with regard to price just as it is created with regard to the product and its maker.

If the pressure is great enough, the national advertising of the product is successful, and an appreciable consumer demand is created, then there develops a pressure upon the retailer for the particular product, and he is more or less driven to stock it.

If the retailer places it in stock (rather than turn his customers away), he enables the manufacturer to dictate to him the basis upon which he shall buy and sell it. The price at which he shall sell it, the margin of his profit, the extent of the line he should carry, the way which he shall advertise it—all these matters which the self-respecting merchant should determine for himself are assumed by the manufacturer to the degree that the manufacturer is able to create pressure upon the dealers.

If the consumer demand created for the advertised product is resisted by the retailer, he is forced to expensive efforts in selling and advertising his own merchandise to hold his customers. Or he may be led, if a competitor already has the advertised line, to stock some other advertised line. In this way he meets the claim of his competitor about the superiority of nationally advertised lines by offering his own customers another line for which he claims a similar superiority.

The accompanying diagram is a graphic presentation of the flow of economic forces in the case of a successfully advertised product. It is important to bear in mind that this refers to the successful *advertising* of the product and not to the success of the *manufacturer* of the product. Many manufacturers who are successful in their business are conducting unnecessary or even unprofitable national advertising campaigns. They are successful in spite of their national advertising—not because of it.

In the diagram, the manufacturer conducts a successful "national advertising" campaign to consumers. This is indicated by the arrow moving from the manufacturer to the consumer. As the advertising is successful a real "consumer demand" develops. This is indicated by the arrow moving from the consumer to the retailer. Pressure upon the retailer now follows, and he is, other things being equal, certain to turn to the manufacturer and stock the product in order to keep his customers from going to other retailers who do handle it. The manufacturer has thus succeeded in creating an "artificial demand" for his product, and this is indicated by the arrow moving from the retailer to the manufacturer.

This is the "vicious" circle which lifts the successful national advertiser outside of competition.

There are two possible criticisms of the reasoning represented by this diagram which require consideration. First, the criticism of those who may deny outright that any amount of national advertising will produce the cycle of developments in the diagram; second, the criticism of those who may deny that the demand thus created is artificial.

Can a manufacturer, through national advertising create consumer demand sufficiently strong to put pressure upon the retailer?

If he can do this, is the demand thus created an artificial demand, the cost of creating which represents economic waste?

I shall consider these two questions separately. The first question I have already considered at length in the discussion of the question of advertisability. Based upon the argument then developed, I can answer it by saying that a manufacturer can through national advertising create consumer demand which will put pressure upon the retailer in proportion to the advertisability of his product.

THE STORY OF SOME HIGHLY ADVERTISABLE PRODUCTS

If an article is low in advertisability, little pressure can be created upon the dealer. But if it is high in advertisability, it is almost unbelieveable to what extent the manufacturer can reduce the retailer to a slot machine which dares to refuse to vend his product only on peril of losing trade and customers.

The Cuticura company makes three products—

an ointment, a soap and a talcum powder—all of them readily advertisable. Let me quote Charles L. Hamilton, the president of the company, and let the story of what national advertising can do with such highly advertisable products be told in his own words:

"We have never had a salesman in our employ. Advertising has brought us all the orders we have ever received from dealers. Our sales department at the factory consists of one woman who checks over the orders when they are received. We do no direct mail advertising to the trade, we never run special drives or weeks, we have no missionaries out working other than our copy, and in fact, we do not even furnish window displays or special signs. The only time we see our customers is when they come to visit us at the laboratories. Their orders are all received by mail.

"Practically every drug store in the country sells the Cuticura products without any solicitation on our part. If a druggist gets out of stock in our line, he simply loses that much business to his neighbor, so he keeps enough on hand to take care of the demand. The actual demand, not promises of it, does our selling for us. We control our market by making a standard trademarked product and advertising it instead of letting our market control us."

ANOTHER HIGHLY ADVERTISABLE PRODUCT

When Proctor & Gamble placed Crisco on the market and started their national advertising of the new product, so certain were they that the consumer demand would follow that they anticipated the demand and sent six cans to grocers free of charge. In a letter to the grocers concerning this gift, they said:

"Our national advertising campaign on Crisco begins in January, when large advertisements appear in practically all of the leading magazines, especially in the household publications which are so largely read by housekeepers.

"We want you to have Crisco in stock, so that you can supply the first demand this advertising will create among your customers. It will be big advertising and the magazines will be read in several million families. You will have calls for Crisco and so will every other grocer who sells to a good family trade. Sell the six cans, and then order what further supply you need from your jobber."

An interesting side-light which shows how confident they were that the dealer would be under pressure to handle Crisco is the following: The original plan fixed the possible margins of the grocer on Crisco as follows: On one case purchased, 16⅔ per cent.; on five cases, 17.22 per cent., plus; on 10 cases, 17.77 per cent., plus.

According to the Harvard School of Research and other authorities, the average grocery store's cost of doing business ranges around 18.91 per cent. Thus the biggest purchaser of Crisco was prevented from making a legitimate margin, right from the start. He was up against a stone wall, for, remember, Crisco was advertised to the consumer at a fixed price per can.

When the original price became known, a rebellion in the trade followed. The grocers were up in arms at a proposition which required them to handle a product on a margin less than their cost of doing business. They were in effect being forced to lessen their sales of butter and lard, two products on which they made a profit, and substitute a new one on which they might have to take a loss. The matter was taken up by the grocery trade press, and the uproar was so great that Proctor & Gamble realized they had fixed a price to the retailer beyond what the traffic would bear, and they changed their price so as to allow the grocers a margin of from about 22 per cent. to about 23 per cent.

ARTIFICIAL DEMAND

If a manufacturer does, through national advertising create a consumer demand for his product in proportion to the advertisability of his product, is he creating an artificial demand which represents economic waste? An unnecessary waste of the time and energy of people who might otherwise be engaged in useful production, as well as dissipating natural resources which might be used to add to the general welfare?

National advertising is generally something very different from the definition of advertising to be found in the dictionary: "To inform or apprise; to make known through the press."

This was the idea of advertising in those days when the merchant was content to print the fact of the receipt of a shipment "of New Orleans molasses or of Scotch ginghams."

"Such a conception of advertising is now not only inadequate, but false and misleading," says George French, an advertising man whose ability would make him an ornament in any profession, in his book, "Advertising." "It is now one of the minor functions of advertising to announce or give notice. *Its major function is to persuade.*"

Selling merchandise to the consumer by the use of national advertising is selling merchandise in a very different way from that of the merchants of a less strenuous time. Then merchants used to assemble goods and await the demands of the public. Both the makers and the storekeepers supplied the necessities of the public, but permitted the public itself to develop its own needs and propensities to purchase. Customers went to the stores because necessities, rather than artificially created desires, had developed in their lives. They bought goods when their pantry shelves were emptied or their clothes were worn out. The new things they bought were needed principally to replace those which had been consumed.

The end sought through national advertising is the reverse of that which the dictionary describes and that which still forms the theme of most of the advertising of merchants today. The object of national advertising is to create desire. It ignores the question of the necessity for the goods and tries only to succeed in persuading the public to buy what it offers. At the best, the needs of the people form but one of the smaller considerations in the plans of the manufacturer who advertises. He bends his energies to the task of persuading people to buy his trademarked goods, and he has no occasion to concern himself about their utility in economic life. He often not only manufacturers the goods, but through his advertising, manufacturers the demand for them. He creates, as George French says, a necessity in the lives of the people that has no economic or moral basis in fact.

Surely, if one of the ablest thinkers upon the subject of advertising characterizes consumer demand created by national advertising as having "no economic or moral basis in fact," we may term the business created by a manufacturer in this way as artificial demand.

XXVI

UNSUCCESSFUL NATIONAL ADVERTISING

Most national advertising campaigns are not successful.

By that I mean that irrespective of whether the manufacturer may or may not happen to be successful, the advertising campaign itself fails to create sufficient consumer demand to result in the artificial demand described in the diagram in the preceding chapter.

A manufacturer's national advertising campaign may fail in this sense from any of the following three reasons:

1. The advertising campaign is inadequate.—The space used is too small; the mediums used too few in number; the frequency of insertion insufficient. The manufacturer is then like an ivory hunter who uses an air rifle to kill elephants. He may hit the mark, but his weapon does no damage to the elephant. He brings home no game.

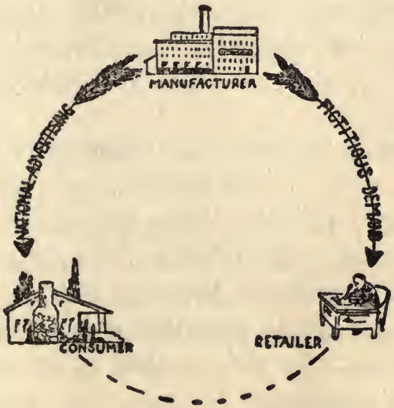
2. The advertising campaign is ineffective.—The plan is wrong; the copy poor; the mediums used badly selected. He is then like a hunter whose gun is powerful enough to kill elephants, but whose marksmanship is so poor that he misses the animals, and so brings home no game.

3. *The products he makes may not be sufficiently advertisable for successful national advertising.* —He is then like a hunter who may be equipped with a gun powerful enough to kill the elephants, and whose marksmanship may be perfect. But he shoots at a mark which he mistakenly assumes to be an elephant. In spite of the fact that he may hit the mark, and hit it hard enough to kill, he brings home no game.

Now in the case of national advertisers whose campaigns fall into one of these three classes and are not successful enough to create an appreciable consumer demand for their products, what usually takes place?

Let us present the matter graphically. The first of these two diagrams represents the manufacturer, the consumer, and the retailer, with an arrow moving towards the consumer, which shows the direction of the manufacturer's selling effort with his national advertising campaign. He is at this time actually advertising or committed to an advertising campaign. He is confident; his agency is confident, and the mediums he uses are confident that as a result of the campaign, consumer demand will be created.

Of course many national advertising campaigns



are launched in which the manufacturer, agency and mediums are under no illusions as to their success in creating consumer demand. They know that no appreciable consumer effect will be created by them. These campaigns are intended to fool wholesalers and retailers into stocking the manufacturer's product; they serve principally as talking points for the manufacturer's salesmen. Such campaigns are certainly open to criticism on ethical grounds. Far too many national advertising campaigns fall within this category.

From an economic or business standpoint, however, it makes no difference whether a national advertising campaign fails to create consumer demand by the deliberate insufficiency of the advertising plan, or in spite of the most earnest efforts of the advertiser. Almost without exception, the campaign is accompanied by the selling efforts on the part of the manufacturer described in the second diagram.

The manufacturer in this diagram is directing his selling effort in two directions; one toward the consumer, and the other toward the retailer. As his national advertising fails to create and appreciable consumer demand, what he and his salesmen may say to retailers concerning it *must be based upon the fiction that it is creating or that it will create the demand.*

What the manufacturer may say to the retailer concerning the merchandise itself, may be the gospel truth. His merchandise may be such that the retailer can readily sell it. But it has nevertheless to carry the burden of what he has expended upon national advertising, and what he says to the retailer concerning the advertising campaign involves an assumption of consumer demand—which in this case I call fictitious demand.

The portfolios containing beautiful reproductions of the advertisements in the campaign; the elaborate statistical estimates of the number of persons who will see his advertising, and the supposed demand which will clean the dealer's shelves, enabling the dealer to sell product at a lower cost and to turn-over his stock more readily, cannot alter the fact that it is the dealer's efforts which will have to sell the merchandise because the talked of consumer demand is fictitious.

WHO PAYS FOR UNSUCCESSFUL NATIONAL ADVERTISING?

When a manufacturer is an unsuccessful national advertiser,—unsuccessful, that is, in creating any appreciable consumer demand for the product he advertises—who pays for his advertising?

In theory, the cost of national advertising is supposed to be paid out of the increased profits and the lower costs of production of the manufacturer. The national advertising is supposed to increase the manufacturer's sales. A part of the profits realized from the increased sales, he is supposed to set aside to pay for the advertising. As he is also supposed to manufacturer in larger volume (to meet the increased demand), his production costs are presumably lowered, and he is again supposed to set aside a portion of the production savings to pay for the national advertising.

In theory, therefore, neither the consumer, retailer or manufacturer pays for national advertising.

In practice, however, the theory is retained only for the purpose of convincing skeptical—but unfortunately seldom very critical—retailers that the manufacturer is not asking them to pay for the national advertising.

If, for the purpose of argument, we concede the validity of the theory, who pays for the advertising when the national advertiser fails to create consumer demand?

In such cases, the whole elaborate theory falls to the ground.

When the national advertising thus fails to create the increased sales for the manufacturer (and it is increased sales to which the theory assigns the roll of paying for it), who pays for it? He has increased his selling cost by going direct to the consumer; for some reason the consumer failed to respond; how can he re-imburse himself for the cost of his advertising? Plainly the cost of the advertising must be included somewhere in the price at which the manufacturer sells it to the retailer unless he is to take out of his profits and carry it as an unproductive expense.

Obviously, in one form or another either the manufacturer or the retailer will have to pay for the advertising.

The retailer, it is true, might make extraordinary efforts to sell the advertised article at an advanced price to the consumer, and then the cost of the national advertising would be passed on to the consumer. But in the long run a policy of "passing the buck" to the consumer, however helpful to the manufacturer, would prove disastrous to the merchant. Sooner or later the public would discover that the merchant was asking too high a price for his merchandise. Naturally the public would attach no special value to the merchandise because it happened to be an advertised brand—since the national advertising had made no real impression upon it.

It would turn to competing merchants who offered better values, and the original retailer would be forced to dispose of the remaining stocks of unsuccessfully advertised articles at substantially the same price as other merchants charged for other merchandise of the same grade. And if he had paid a higher price—because the manufacturer's salesman had made him believe that the fictitious demand supposed to follow the national advertising would help sell the goods at a sufficient margin of profit—then the retailer would be paying for the manufacturer's advertising.

If the manufacturer is unable to sell to the retailer at a price sufficient to yield him his average profit and to pay for the advertising, then the manufacturer must pay for it. His advertising appropriation either reduces his profits, or causes him an actual loss. The longer he continues the effort, the greater is the investment he makes in advertising and the higher is the price he must ultimately secure if he is to ever get back his investment. If his product lacks advertisability and he tries long enough, changing from one advertising plan to another in the hope of finding one that will create a demand for his product, the day is almost certain to come when the task of carrying the cost of the advertising will break down the manufacturer.

XXVII

NORMAL MARKETING

"To create, to control, to stimulate demand," in the words of a writer upon national advertising, "for one or all of these advertising is done."

Could anything more artificial be conceived than a demand which must be first created by advertising and then kept alive by continual advertising?

Is there any real economic need of creating demand?

Human needs alone are sufficient to create a natural demand for a tremendous variety of essential products.

Human desires are boundless. They need no stimulation. It is not a lack of advertising as much as a lack of means for gratifying desires that checks the demand for refinements and luxuries in food, clothing and furnishings. It is a hundred times as important to any individual business man that the possible consumers of the products he sells be propserous enough to buy them, as that he create through advertising an artificial demand for the particular brands he sells.

"Good times" will do more for business than all the advertising which Crœsus might do.

It is perfectly plain that national advertising is not necessary to create demand—that demand follows naturally as a result of the existence of human needs and desires.

The difference between national advertising and trade and retail advertising is the difference between the effort to create and control demand and the effort to serve and supply demand.

Of course, the word demand which is used twice in the above statement is not used in exactly the same sense in both instances.

When the average national advertiser speaks of creating and maintaining demand, he really has in mind demand for a particular brand of product which he alone can supply. He has made an enormous investment in advertising; he secures a return upon it—if he is successful in his advertising—by virtue of the fact that he has a monopoly of fulfilling the demand which his advertising creates.

The contrast between this kind of demand and the natural demand, which exists because humanity exists and which business seeks to serve and supply, is very great. If uninfluenced by persistent advertising, natural demand concentrates upon the merchandise which it needs or desires for its satisfaction.

The safest and most efficient method of doing business is to supply the merchandise for which there is a natural demand in such qualities, at such prices and in such ways as to bring buyers back for more.

The most dangerous and the most extravagant method of doing business is to spend fortunes in national advertising to persuade the consumer and then keep him persuaded, that the mere attaching of an advertised label or trademark makes an average product worth far more than other products of identically the same grade.

NATURAL DEMAND

It is a profound economic truth and therefore a very practical business fact, that human desires need almost no artificial stimulation.

An accidental meeting of an acquaintance wearing a new dress is sufficient to kindle the most intense desire for a new dress in a woman.

Neither national advertising nor selling is needed to create in that rara avis, the human being who owns no automobile, a desire to own one. The first sight of an automobilist annihilating distance and apparently traveling without exertion is all that is needed to kindle that desire in the breast of any man.

Normal business can leave the matter of creating desire to the ordinary day to day contacts of civilization, just as it can leave the matter of "creating" the need for the essentials of life to the ordinary day to day requirements of nature. Men get hungry—they need food. Men grow ragged—they need clothing. Men get cold and wet—they need shelter.

In exactly the same natural way, to please their palates, men desire the luxuries of eating; to satisfy pride, they desire the refinements of dress, and to enjoy comfort and satisfy social ambitions they desire beautiful homes.

Needs and desires such as these are the sources of what I call natural demand.

The problem of normal business is the problem of supplying this natural demand, while securing an adequate return or profit upon the sale of the merchandise which it furnishes to fulfill mankind's needs and desires.

Economically, desire is a different thing from demand.

Desire, as it has been used in this article, is plainly unlimited.

Demand, however, develops only proportion to the ability of consumers to gratify desire.

Let me make this very abstract proposition clearer by a familiar illustration.

The desire to own automobiles is unlimited.

If automobiles are priced at an average of \$5,000, the demand for automobiles would be extremely limited. The number of consumers able to gratify their desire to own automobiles would then be so few that they created a very limited demand for cars.

If automobiles are reduced in price, the number of consumers able to gratify their desire to own cars would constantly increase, and the demand would increase with them.

If cars can be bought for a matter of a few hundred dollars, the demand is so great that the productive capacity of the greatest factories the world has ever known cannot keep up with it.

Henry Ford has built, perhaps, the greatest business of our times—I mean great in the sense of success in a highly competitive field—because the rock-bottom economics upon which he built it was the supplying of natural demand. He took it for granted that men wanted cars—it was his concern to make it possible for them to fulfill their desires. He made money doing it. His dealers made money. And the public desire was satisfied.

Here we see one of the most remarkable manufacturing successes of industrial history built by a man who conducted his business in such a manner as to profit from natural demand. And national advertising was not needed to achieve this success.

In the very beginning of the industrial revolution—when the maker of a product was a maker first and foremost and a seller only incidentally—the actual marketing of a factory's product was the work of the owner, or one of the owners, of the business.

There was literally no selling expense. Selling was simply an incident in the work of the manufacturer and the time whch he devoted to selling scarcely interfered with his superintendence of production.

This stage was immediately followed by the stage in which the manufacturer relied upon traveling salesmen to dispose of his product. The manufacturer's representatives furnished the factory a natural method of marketing its products when the number of outlets became too numerous for the manufacturer to cover personally.

As the number of items made by a factory increased, price lists and catalogs put in their appearance. The catalog was probably the first trade advertisement.

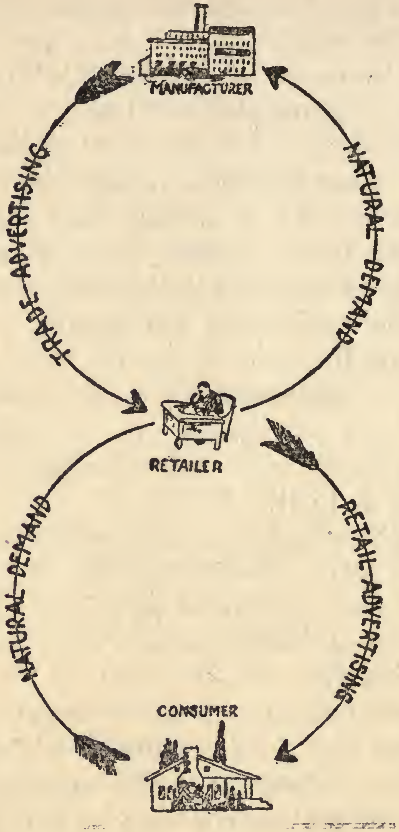
Then came circulars, form letters—all kinds of direct "trade" advertising—and trade paper advertising.

Trade advertising is essentially a device for carrying the manufacturer's announcements and messages to the trade through printed matter. It serves to supplement—in some few cases it is a substitute—for the work of the salesmen. Frequently it is incomplete salesmanship, since trade advertisers do not generally undertake to get orders directly in response to their advertising. In its most extreme form, however, it only does through the medium of the printed word what salesmen do by word of mouth.

When the manufacturer is not a national advertiser, it is principally used to direct the attention of the trade to the merchandise which is being offered to it.

When a national advertiser uses trade advertising, his trade advertising, like his salesmanship, puts more emphasis upon the national advertising of his merchandise than upon his merchandise itself.

The accompanying diagram makes this very plain. The manufacturer uses trade advertising as he uses a salesman for the purpose of telling the story of his merchandise to the distributor to whom he sells. The arrow "trade advertising" in the diagram, which moves from the manufacturer to the retailer, might just as well be called "selling and trade advertising." Eco-



nomically—so long as the manufacturer is not a national advertiser—they are one and the same thing.

They both direct the attention of the retailer to the merchandise offered by the manufacturer.

Consideration of whether or not the merchandise itself will supply a natural demand of his customers should determine the retailer in buying merchandise.

Trade advertising, unlike national advertising, leaves the merchandise itself as the supreme factor in the retailer's decision.

In the same way that manufacturers with their trade advertising utilize printed matter to supplement the work of salesmen, retailers use the printed word to inform their customers about the merchandise they have on sale.

Retail advertising, like trade advertising, is essentially the effort of a merchant to secure from the public consideration for his merchandise selections.

The retailer knows that his customers will buy things they need and desire—that they will buy new clothing, new furnishings, new dry goods, new furniture. He tries to supply them these things in the qualities and at the prices that will hold his trade.

Retail advertising is simply a method he uses to get news of his offerings to consumers in his community. And in consequence, shoppers consult the retail advertisements in the daily newspapers to learn whether the retailers they usually patronize have anything special to offer, either in novelty or in price, on the merchandise they are ready to buy.

The retail advertisements have the same importance to the housewife that the market reports have to a speculator. They guide her in her buying.

In the diagram the arrow "Retail Advertising" represents the effort of the retailer to market the merchandise he has assembled in his store.

Necessities drive and desires lead the consumers in his community to buy. If the merchandise itself is right—right in quality and in price—the potential buyers become actual buyers and "natural demand" flows, as indicated by the arrow in the diagram, from the consumer through the retailer and jobber and so to the ultimate producer.

At every step in the movement of merchandise, whether from manufacturer to wholesaler, from wholesaler to retailer, or from retailer to consumer, the one way in which each factor in the movement can hold the natural demand is by supplying the right merchandise.

No amount of trade advertising or retail advertising can, by itself, enable an advertiser to get outside of competition or away from the merchandise he is trying to sell.

XXVIII

COMPETITION AND THE THREE CLASSES OF ADVERTISERS

Competition between national advertisers results in the distribution of business between the manufacturers in proportion to the effectiveness of their advertising.

Competition between trade advertisers results in the distribution of business among manufacturers in proportion to the effectiveness of their manufacturing.

The significant difference between the national advertiser and the trade advertiser is that one addresses himself to buyers who have no technical knowledge of the goods, while the other addresses himself to buyers whose business it is to judge the technical merits of the products they handle.

It is today possible for a manufacturer to convince the general public through national advertising that a certain trademarked product is worth more than its value as merchandise because the public is systematically kept in ignorance of the real grade and nature of the merchandise advertised.

But it is impossible for a manufacturer, no matter how effective his trade advertising may be, to sell to retailers except on the basis of the real merits of his product.

TRADE ADVERTISING AND COMPETITION

The trade advertiser (unless he is also a national advertiser), has fundamentally only one story to tell—that is the story of his merchandise. No matter how much he may increase the amount of his trade advertsing, and no matter how many mediums he may use, he succeeds or fails, as every business man should, upon the merits of the product he has to sell. An increase in the amount of his trade advertising should increase the volume of his sales by increasing the number of accounts to which he sells, just as an addition to his sales force should produce the same result. But it would not result in any changes in the basis upon which individual sales were made, unless the demand for his merchandise is so great that buyers bid against one another to get the goods. And to produce such a result, the trade advertiser's merchandise itself must first of all be conspicuously above all competing merchandise for a number of years.

The trade advertiser, who does not rely upon national advertising to make his merchandise acceptable to the public, has confidence that the quality of his product and the margin which he makes it possible for the retailer to earn, will get him his share of business.

The fact that he is a trade advertiser—no more than the fact that he has salesmen—can not enable him to get outside of the competition of other manufacturers in his line. But if he does produce the merchandise which by its own value creates customers for the retailers who may stock it, then he gets above competition at a small fraction of the cost and with none of the hazards of a national advertising campaign.

RETAIL ADVERTISING AND COMPETITION

There are hundreds of thousands of retail stores in the country. Comparatively few of these stores would escape Sheriff's sales if they depended upon the trade of transients for their support.

Some of the retail stores located in cities like New York and Chicago, which cater to the endless streams of visitors to the cities, may be dependent upon transients for a good share of their support. But the volume of business which they do is a very small part of all the sales made at retail by stores which cater to a regular trade.

That the average grocer, butcher, and baker sells to customers who buy regularly from them is obvious, because these customers are apt to visit them almost daily.

It should not be forgotten that clothing stores, furniture stores, department stores—in fact stores of all kinds—also sell to regular customers, in spite of the fact that their customers may not visit them so often, and in spite of the fact that in some cases they may divide their trading among a number of stores in the same line.

A regular customer of John Wanamaker, New York, may also be a regular customer of B. Altman & Co. These two department stores may divide between themselves almost the entire purchase of that customer, in their lines. Stern Bros. and Lord & Taylor may in the same way divide the trade of another customer of about the same class as the customer who patronizes the previous two stores. Whether they divide the trade with one or more of their competitors, or whether they get all the trade of a customer, it is always supremely important for them to maintain their hold upon their customers.

Competition between retailers is really a sort of battle to secure customers.

If a grocer secures a customer, he really wins the opportunity to supply that customer with what she needs in the way of groceries day after day. If she spends $50 a month for groceries he will sell her, in the course of the month, sugar, coffee, butter, eggs, canned goods, and so on, to that amount. It will matter very little to him what she buys on any given day. If she buys sugar one day, he knows that she will buy coffee on another day. Over a considerable period of time, he can figure that he will make upon his sales to her his average margin for profit.

In speaking of the value of a customer to a store, as contrasted with a single-time purchaser, Mr. Harry Kirtland, of the The Kirtland Co., Toledo, Ohio, present the following figures, obtained from a study of a large number of stores in each of the lines mentioned:

In a year's time the average customer of a clothing store buys \$85 worth of merchandise; in a large department store, \$362; in a cloak and suit house, \$236; in a shoe store, \$35 to \$68, depending upon whether the customer is single or the head of a large family; in a furniture store, \$87 (setting aside young couples outfitting their first home).

Out of a large list of retail stores chosen for test, it was found that the average store holds 85 per cent. of its trade during a year, and loses 15 per cent., for a variety of reasons, divided as follows: out of 100 lost customers in a group of Iowa stores, 68 stopped buying because of indifference on the part of employees; 9 because of price or service advantages elsewhere; 3 due to moving out of the trade territory; 14 because of unadjusted grievances; 5 on account of influence of friends and 1 dead or unaccounted for. The stores gained on an average of 15 to 25 per cent. of new trade.

THE OBJECT OF RETAIL ADVERTISING

A retail store is a place at which a number of people regularly supply certain of their needs and desires. The retailer assembles for them a stock of goods. Whether his customers buy one maker's goods, or another maker's, means little to the retailer in comparison with their continued buying what they need in his line from him.

These facts, of course, exercise a great influence over everything which retailers do.

They profoundly affect the results which are secured by them from retail advertising.

Retail advertising is at the bottom an effort to secure customers. What retailers advertise and the way in which they advertise proves this conclusively. They advertise their latest offerings, their best purchases, their greatest values.

If they secure the customers—they sell not only the things they advertise, but they have the opportunity to supply these customers with all their requirements in their line. What make or kind of merchandise the retail advertiser sells the first time is a matter of indifference to him provided the value and service is such that he makes a customer, because every customer means for him his average profit on what that customer buys from him over a long period of time.

NATIONAL ADVERTISING AND COMPETITION

No amount of trade advertising will lift a manufacturer outside of competition, because the trade is influenced by the merchandise itself rather than by what the manufacturer says about it.

No amount of retail advertising will lift a merchant outside of competition, because his success is based not upon the particular merchandise he advertises so much as the number of customers which he can serve as a result of his advertising.

The trade advertiser must rely upon his skill as a manufacturer for his success, just as the retail advertiser must rely upon his skill in merchandising for his success. Their advertising may enlarge their opportunities for selling—may increase their volume of business—but it does not change the basis upon which they do their business. If they succeed in getting above competition—succeed in securing a position which no competitor disturbs—it is because of their preeminence as manufacturers and merchants and not as advertisers.

National advertising is radically different from trade and retail advertising, because unlike these two kinds of advertising, it is not addressed to those to whom the advertiser sells his product.

National advertising is addressed to consumers, but the national advertisers themselves sell to distributors. The success of the national advertiser depends upon what he can persuade or force distributors to do, because of what he has said to consumers. His product is only an incidental element in his success. He does not sell the distributors his product—he sells them the demand for his brand, label or trademark. And of the advertised product he is the sole source of supply.

If it were not for the national advertising, the good will which attached to his trademark would have to come from the merits of his product. It would be subject to the competition of other makers of the same product. But once his product is nationally advertised, the good will no longer rises from the product and is subject only to the competition of other national advertisers of the same product.

Competition between manufacturers as to the product itself results in better values.

Competition between manufacturers as to the national advertising of a product results in poorer values.

The trade advertiser gives the distributor values because he cannot get away from the competition of other makers as to the product itself.

The national advertiser gives the trade poorer values not merely because he has to add the cost the advertising to his product. The cost of the advertising may be an insignificant sum when prorated on some products. He gives the trade poorer values because, if his advertising is successful, it enables him to base his prices on what the traffic will bear.

National advertising and retail advertising are both addressed to the consumers. But the economic power which it gives to the two kinds of advertisers is very different.

The national advertiser may, or may not, ask a higher price from the consumer for his product. He generally does persuade the consumer to pay more. But whether he takes advantage of his power to secure this or not, he has the power to raise the price of his product to the retailer in proportion to the demand created by the advertising.

Retail advertising gives the retailer no such power as this. No matter how effective it may be, it never enables the retailer to get outside of competition as to the merits of his merchandise and merchandising. The retailer who advertises talks to consumers, but he lives and prospers by his success in giving his customers merchandise which holds their trade.

The manufacturer who advertises talks to consumers, but his success depends upon his ability in selling retailers the demand which he has created for his trademark.

XXIX

MANUFACTURING AND MARKETING

As I write, I have before me a copy of a full page advertisement which is being published in most of our popular magazines. The advertisement is selling a course in salesmanship. The leading illustration shows a salesman talking to a man sitting at a desk. Underneath is the following caption:

"Every one is a salesman of goods or ideas. Your talk—nothing else—is what counts in selling."

No more false statement has ever been made in any advertisement. Yet it probably came naturally enough to the writer of the copy. What is worse, he probably believes that it is true. He probably has never stopped to ask himself whether it is true. He has merely accepted without thought the prevailing belief that our selling talk, our advertising—nothing else—is what makes for success.

So many selling miracles have been performed through the use of advertising—trade advertising, retail advertising, national advertising—that a manufacturer ambitious for expansions, who is considering the use of advertising in the hope that he might be in the beneficiary of similar miracles, ought to do some cold-blooded thinking on the subject.

I am anxious in reviewing, from the standpoint of the manufacturer, what I have written upon this aspect of the subject, to impress upon manufacturers the importance of analyzing national advertising successes to learn to what extent they are really successful through the play of economic forces, and to what extent they are successful through the play of psychological or selling forces.

For instance, a keen student of the clothing field, whose familiarity with it dates back more than a quarter of a century, insists that the successes of the outstanding national advertiser in the field is due not to their policy of national advertising, but to their manufacturing and merchandising efficiency in their early days. More manufacturers of clothing have taken flyers in national advertising as a result of the belief that this firm owes its success to its advertising than for all other reasons combined. Yet it is an indisputable fact that this great national advertiser first secured its trade outlets by setting the pace in giving clothiers better values. Today it no longer sets the pace in this respect. It uses the prestige of its national advertising as the force with which to sustain its momentum. Efficiency in advertising has become a substitute for efficiency in value giving.

I am perfectly willing to concede that under present conditions—of over-capacity for production—that the marketing of his product profitably is the problem of problems for the manufacturer. But I insist that marketing begins not when the product is finished, but while it is being made. A product rightly made—right in workmanship, in material, in quality, in design and in cost—is more than half sold. As a matter of fact, retailers go to almost as much trouble to find makers of products of this character as many manufacturers go to find retailers who will buy products which lack it.

The safest and most efficient method for a manufacturer to market his product is to supply a product for which there is a natural demand in such qualities, at such prices and in such ways as to bring retailers back for more.

Retailers will come back to such manufacturers for more with almost no selling effort on the part of manufacturers if the product meets two requirements: Satisfies their customers, and enables them to make an ample margin for profit. The response of retailers to the selling efforts of such manufacturers—whether the manufacturers use trade advertising or salesmanship—has resulted in marketing successes that rival anything accomplished through national advertising.

And these successes have involved only a fraction of the financial outlay of a national advertising effort and none of the hazard of making the retailers to whom the manufacturer had been selling, indifferent or hostile to the product because it is nationally advertised.

Two factors determine the response of retailers to a manufacturer's product when the product is offered them solely and simply as merchandise:

First, the extent to which it attracts customers—satisfied customers—and brings back customers for more of the product.

Second, the margin of profit which it permits the retailer, if the retailer sells it to the consumer so as to meet all normal competition.

It is plain that any manufacturer who wishes to market his products in accordance with these factors has first of all a problem in manufacturing to solve.

The extent of his success will be determined mainly by his efficiency and ability in design and production.

The more efficient he is, the more his product embodies the two factors above described, the greater efforts will retailers make in pushing and advertising his product. The most powerful elements in distribution—the element which comes into direct touch with the consumer, which influences him by personal contact at the time of purchase—works in favor of such a manufacturer. Few business men fully appreciate the fact that this element—the retailers—has built up an enormous consumer demand for trademarked products, the manufacturers of which never spent a cent in consumer advertising.

THE TWO AIMS OF NATIONAL ADVERTISING

When a manufacturer undertakes to establish a market for his product by urging consumers, through national advertising, to ask for his brand, or label, or package, these factors "fade out" of the picture altogether. He can aim his national advertising in either of two directions: Either to actually create consumer demand, and thus force retailers into stocking his product, or purely to "impress" the retailers and thus fool them into stocking it.

I know of cases where manufacturers used $10,000 advertisements in national mediums solely to impress retailers and with not the slightest real expectation that the advertising would move the goods out of the retailers' stores.

After the goods were once in, it was the retailer who had the difficult job of moving the over-priced product out.

Some of the manufacturers whose advertising campaigns were aimed in this direction are still "putting it over." Some of them, however, no longer have any advertised product to "put over." What Lincoln said is something that should be pondered by every manufacturer who thinks of spending money in national advertising to impress—or rather, to fool—retailers.

A national advertiser may fool all of the retailers some of the time. He may fool some of the retailers all the time. But if he thinks he can fool all of the retailers all of the time, he is apt only to fool himself.

THE THREE HAZARDS OF NATIONAL ADVERTISING

Now, suppose we review the manufacturer's problem who considers marketing of his product by creating a real consumer demand through advertising.

He must first of all discount three hazards: First, the hazard of antagonizing and losing his existing accounts. If he sells to jobbers, the jobbers are almost certain to cease any real effort in favor of this product, even if they do not actually strive to push some other product in preference to it. If he sells to retailers, he is certain to have to re-sell his product to all of them. Most of the work of accumulating accounts which may have represented decades of effort will count for nothing.

Second, the financial hazard. From the very beginning of the national advertising era the cost of an advertising campaign which finally succeeds in creating consumer demand has been so large as to represent a financial hazard of the first magnitude. But today, with the consumer being assailed by a hundredfold as many national advertisements, the effectiveness of each advertisement is so much less that the size and frequency must be much greater if real demand is to be created. And at the same time the cost of advertising in all the effective mediums has greatly increased. National advertising always involved a financial hazard. Today that hazard is much greater. It is in many cases an economic folly when so many less wasteful methods of marketing are available.

Third, the hazard as to the advertisability of the manufacturer's product.

It has been shown that the greatest hazard of a manufacturer who undertakes to market his product by national advertising has to do with the question of whether his product has sufficient advertisability to make consumer advertising pay. For the extent to which consumer demand for a product can be created through national advertising is determined by the degree of advertisability of the product.

Four factors principally determine the advertisability of products:

First, the margin for profit between bare manufacturing cost and the price which the consumer can be persuaded to pay. The higher a product is in this factor, the greater is its advertisability.

Second, the frequency with which the consumer has occasion to purchase the product. The more frequently a product is purchased, the easier is the work of persuading a sufficient number of consumers to purchase it.

Third, the variability of the consideration which determines the consumer in purchasing a product. The greater the variability, the more difficult is the problem of advertising a product. When the variability is extreme, as in women's styles, it is almost impossible to successfully advertise a product no matter how advertisable it may be in other respects.

Fourth, the extent to which the retailer determines the consumer's choice. The greater the degree of influence of the retailer, the less advertisable is the product.

SPECIALIZED STAPLES

It is plain that ordinary staples which still comprise the bulk of the sales in many lines of retailing, do not readily lend themselves to national advertising.

On the other hand, those specialties which are pure novelties, are not high in advertisability in spite of the high margins of profit, because of the great variability of the demand for them.

The greatest amount of national advertising has been done with what might be called specialized staples. By taking a staple product and making it appear different or emphasizing some peculiarity in its method of manufacturer, it is possible to increase the margin of profit sufficiently to make the national advertising of it possible.

This has resulted in very heavy national advertising to consumers by the industries whose products were high in advertisability.

The successful national advertisers in these industries make enormous profits out of their ability to persuade the public to pay luxury prices for their specialized staples. To the extent to which they succeed in diverting the expenditures of consumers to their own products, they reduce the field of sale for all other products.

This process benefits only the successful national advertiser and the advertising industry—the paper makers, printers, publishers, agencies, etc.

It demoralizes wholesaling. Wholesalers in self-defense enter manufacturing and establish private brands, perhaps becoming national advertisers themselves, or enter retailing so as to insure outlets on the products which they sell.

It makes the work of the retailer more difficult and costly, and less profitable to himself. It multiplies the number of brands he carries if he would meet all the demands of his customers. Thus it increases his stock and reduces his turnover. It leads him to unconsciously substitute specialized staples for the staples he would otherwise sell. Thus he increases his sales of nationally advertised products on which the manufacturer allows him little profit at the very time that he reduces his sales of products on which he had made a normal profit.

Finally, it involves a species of charlatanism in persuading the public that the advertised virtues of the product make the product worth all that the advertiser can get for it. Once the public has been persuaded to assume this state of mind, the product is lifted out of ordinary competition, and the national advertiser can fix the price to consumer, to jobber and to retailer at whatever figure will in his opinion give him the highest net profit.

XXX

THE FUTURE OF NATIONAL ADVERTISING

There is not the slightest doubt that for some time to come the volume of national advertising will increase year by year.

The national advertisers now in the field will have to increase their appropriations every year, or fall behind in the race for consumer favor. Even to continue to use the same mediums in the future to the same extent as they do at present requires a greater appropriation every year because of the recurrent rises in the advertising rates of the mediums. And of course, with the annual increase in the number of national advertisers, those already in the field must advertise more heavily to maintain their present position in the public eye. This is one reason why national advertisers who secure results in the beginning with quarter and half-pages, find it necessary to use full-pages and "double-trucks" a few years later.

But the greater part of the increase in national advertising will undoubtedly continue to come from the ranks of manufacturers newly converted to the theory of marketing their products by direct appeal to the consumers.

Most of the new recruits will be unsuccessful. But these will cover up their failure to create consumer demand for their product by the approved method of inducing the retailers to pull their chestnuts out of the fire.

A few of the annual crop of newcomers will be successful, and will persuade the public to pay luxury prices for their specialized staple. They will add one more brand to the multitude which already makes the life of the retailer a burden.

THE POWERS WHICH MAY TRANSFORM NATIONAL ADVERTISING

Two economic powers may ultimately transform national advertising. One is the ultimate consumer. The other is the new merchant—the merchant of the future rather than the present.

A revolt of the consumer—a sort of "buyer's strike" directed against brands, labels, trademarks and packages which are overpriced—would make national advertising unprofitable to the advertisers. An awakening of the consumers to the manner in which national advertisers exploit their psychological weaknesses would make them suspect advertised products. All national advertising would then have "reverse English," as they say in billiards, and the more heavily a product was advertised, the more carefully would the public study it and make certain that it was worth the price asked for it.

The possibility of a consumer revolt is remote. The principal organs of information for the consumers—the magazines and newspapers—are certainly not going to urge the public to an intelligent thrift in buying.

But that the merchants of the country will awaken to the menace of slot-machine retailing is more than a possibility—it is a very imminent probability. Many of the large retailers—the department stores, the mail order houses, the chain stores—have already seen the light. Some of the smaller retailers (small in comparison with the others), notably the clothiers, are studying the merchandising of their lines with the deliberate intention of freeing themselves from handicaps imposed by national advertisers in their line.

WHAT MAY SET THESE POWERS IN MOTION

These two economic powers may ultimately render national advertising impotent.

What are the chances that they will actually do what they have power to do?

A period of prolonged "hard times" and of bad business would undoubtedly set these powers in motion. Hard times force consumers to be thrifty. Necessity is a great educator. Extravagantly marketed products, such as the nationally advertised products, would suffer irretrievably if the consumers' need of being thrifty was sufficiently prolonged to really educate them in buying. With consumers seeking "values" in what they buy—not necessarily "bargains"—the slot-machine retailer would lose in competition with the merchant who knew merchandise.

There is small solace, however, in the knowledge that the high-pressure marketing of products would disappear in a period of misfortune. To hope for such a development is too much like anticipating a process of "deflation" to cure excessive speculation.

Fortunately, there is another business force which may set both retailers and consumers in motion.

If the manufacturers who are not national advertisers awaken to the need of educating the retailers to the possibilities of selling merchandise, rather than brands; if these manufacturers take the aggressive instead of the defensive in competing with the national advertisers; if they utilize the comparatively inexpensive, yet highly efficient, means now available to them in reaching retailers—salesmen, trade advertising, merchandise fairs, direct advertising—it would not be long before retailers would grasp at the possibilities of profit and self-respect offered them.

And if these manufacturers educated a sufficient number of retailers, the retailers would attend to the education of the public.

When I think of the powers which the retailer really possesses—his direct contact with his customers; his advertising to which the consumer looks as news—there is little doubt in my mind that he can, if he will, eliminate the contribution of national advertising to the rise in the cost of distribution.

THE END