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AUTHOR STEWART HENRY REWOLDT

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SOME ECONOMIC EFFECTS OF MARKETING RESEARCH

by
Stewart H. Rewoldt

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Committee in charge:

Professor D.M. Phelps, Chairman
Professor Olin W. Blackett
Professor Angus Campbell
Professor Donald R.G. Cowan
Professor J. Clark Dickinson

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CHAPTER I

MARKETING RESEARCH: ITS GROWTH AND STATUS

Marketing research is of relatively recent origin. Prior to the twentieth century, no business firm had a marketing research department, no textbooks existed in the field, no marketing research agencies were vending their services. This is true, at least, if we mean by the term marketing research what has come to be accepted as its common definition. That is, "marketing research is critical study and evaluation on a continuing basis of present and potential markets and of marketing operations to the end that policies, methods, and performance in this area may be governed by supportable conclusions and may stand the test of objective appraisal or measurement."[1] A widely accepted textbook in the marketing research field states that "marketing and distribution research is the use of scientific method in the solution of marketing or distribution problems."[2] There are other definitions of marketing research in use, but they all include one central idea, i.e., that scientific, objective methods be utilized. Unplanned observation, mere reading of literature in the marketing field, or casual conversation with marketing practitioners does not constitute scientific method. If they did, we might argue that marketing research is inherent in business activity, as

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[1] American Management Association, A Company Guide to Marketing Research, Report No. 5 (New York: The American Management Association, 1944), p. 7.

[2] L. O. Brown, Marketing and Distribution Research (New York: The Ronald Press Company, 1949), p. 5.

management of any business involves planning for its future, which can be done only on the basis of some sort of information. If this were the case, then the history of marketing research would date from the beginning of commercial activity. Such a concept of marketing research is, of course, so broad as to be virtually useless.

The birth of marketing research is commonly assumed to have been accomplished by the establishment of a market research department by the Curtis Publishing Company in 1911. Since that date it has grown at a very rapid pace. In 1946, at the close of World War II, approximately 38 per cent of all manufacturing companies were reported to be doing marketing research of some kind, either through an organized research department or through a line executive.[1]

No accurate data on present-day expenditures for marketing research are available. Many estimates of these costs have been made, however, and they cover a wide range. Newsweek in 1946 reported estimates running up to $30,000,000 per year.[2] Robert T. Haslam, Vice-President of Standard Oil Company (New Jersey), estimates expenditures for marketing research at about $35,000,000 per annum.[3] Fortune estimates that in 1947 American business spent approximately $50,000,000 on marketing research activity, as compared with only $10,000,000 or $15,000,000 at most in 1940.[4] There are indications that expenditures

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[1] Hensner, Dooley, Hughes, and White, "Marketing Research in American Industry: I," The Journal of Marketing, Vol. XI, No. 4 (April, 1947), p. 339.

[2] Harold Isaacs, "Market Research Helps Chart Course for Business," Newsweek (March 29, 1948), p. 70.

[3] Robert T. Haslam, "The Need for Research in Marketing," an address delivered on December 27, 1949, before the American Marketing Association, and published by Standard Oil Company (New Jersey), p. 7.

[4] "The Market: 1948," Fortune, Vol. XXXVI, No. 5 (November, 1947), p. 242.

for marketing research will continue to increase at an accelerating rate.

The Growth of Marketing Research

As indicated above, organized marketing research originated with the Curtis Publishing Company in 1911.[1] The history of marketing research for the years immediately following 1911 is largely the story of the Division of Commercial Research at Curtis. Because the Curtis Publishing Company had recently purchased Country Gentleman and no one at Curtis knew much about agriculture, the first study was an investigation of the agricultural equipment field. This investigation led to a 460-page report on the industry. Although N. W. Ayer and Son had made a survey of grain production by states as early as 1879, this was the first complete marketing research study ever made.[2] The next endeavor undertaken at Curtis was a study of the volume of business done by department stores in cities of more than 50,000 population. This resulted in a four volume report on Department Store Lines which appeared in 1912. In 1914 a study entitled Automobiles was published in five volumes, covering many aspects of the automobile industry.

Five years after the Curtis Publishing Company established its Division of Commercial Research, a marketing research department was founded by the United States Rubber Company under the direction of Dr. Paul Nystrom. Soon thereafter, in 1917, Dr. L. D. H. Weld left the faculty of Yale University to become a general economist for Swift and

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[1]Lyndon O. Brown, Market Research and Analysis (New York: The Ronald Press Company, 1937), p. 7.

[2]Donald M. Mobart, Marketing Research Practice (New York: The Ronald Press Company, 1950), p. 5.

Company. While there he organized and operated a commercial research department.[1] By 1930 there were 655 organizations active in the marketing research field.[2] By this time a number of large corporations had established organized research departments of their own. In addition to the firms noted above, marketing research departments had been established by the American Multigraph Sales Company, the Chicago, Durlington & Quincy Railroad, the Dennison Manufacturing Company, the Eastman Kodak Company, the General Electric Company, the General Motors Corporation, the Metropolitan Life Insurance Company, the Stewart Warner Speedometer Corporation, and the Lehn & Fink Products Company.[3]

Why was it necessary to wait until the twentieth century for the establishment of marketing research as an organized business activity? In general, the answer to that question is that although marketing research could in many cases have been advantageously employed prior to 1900, there was no great need for it previous to the present century. The need for marketing research is largely an outgrowth of the "gap" between producer and consumer that resulted from the industrial revolution. In earlier days of industrial development, marketing problems were of little consequence. Under the earliest stage of industrial development work was carried on by the members of a household for the members of that household. The guild system which followed was characterized by industry carried on by small masters, employing two or three men. There was now a market for these goods, but it was small and comparatively stable.[4] During the third stage of industrial development,

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[1] Ibid., p. 8.

[2] Percival White, Marketing Research Technique (New York: Harper & Brothers Publishers, 1931), p. 15.

[3] Ibid., p. 15.

[4] W. J. Ashley, An Introduction to English Economic History and Theory (London: Longman, Green and Company, 1912), pp. 219-20.

the domestic system, a wider market emerged, leaving the manufacturer further and further removed from that market. Until this time, the people who composed the market had frequent and close contact with the producer. The industrial revolution changed all that. Mass production in industry, carried on in concentrated areas, in combination with the broad markets necessary to absorb the volume of goods turned out, gave rise to the need for go-betweens, or middlemen, to bridge the gap between maker and user. In one sense, this group of middlemen helped the manufacturer to keep contact with the ever expanding market. In other respects, it established obstacles to a knowledge of what was transpiring at the consumer level. No longer were negotiations carried on between the parties directly involved, the producer and the consumer, but through intermediaries and at long distances. It is difficult enough to achieve a meeting of the minds between two parties in immediate contact. It is more difficult when a multitude of intermediaries must be employed.

The separation of production and consumption did not make evident immediately the need for research in marketing, especially in America. Up to the turn of the century in 1900, the United States was a country in the process of physical growth. Continued expansion of population, the development of new mining and agricultural areas, and rapid expansion in transportation facilities made this country a veritable glutton for goods. Business executives thought principally of production. There is no reference, for example, either in the story of Andrew Carnegie or the published biographies of Judge E. H. Gary, to marketing or marketing research. The reason for this is obvious. Marketing problems in steel did not exist.[1] In the latter nineteenth and early twentieth centuries, the American market began

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[1]Albert Haring, "The Evolution of Marketing Research Technique," The National Marketing Review, Vol. I, No. 1, p. 26.

to show less hunger for goods. Production problems were reduced in importance, and marketing problems became more acute. Marketing research is an outgrowth of the attempt to solve these problems.[1]

Paradoxical as it might seem, increases in standards of living tend to produce a multitude of marketing problems and create a situation calling for research to solve those problems. In the face of low living standards, where the incomes of individuals are barely sufficient to procure necessities, it is not difficult to adjust production to market demand. When incomes are larger there is a greater demand for variety and minor product differentiation among consumers, and the process of anticipating the wants of consumers becomes more difficult.[2] By 1900, incomes in the United States had reached the point where a large proportion of the population was above the subsistence level. This enhanced the need for marketing research.

When the need for marketing research had developed, it was soon apparent that there had been no corresponding development in methods of marketing research. Knowledge of markets and of marketing processes was obtained primarily by contacts which the salesmen of a firm had with consumers and with channels of trade. Conventions were a fruitful source of both information and misinformation. Hearsay and rumor, traveling by many routes, formed the basis for many important business decisions. None of these devices, or others like them, can be classified as marketing research.

One type of basic marketing research, the census, did exist in the period preceding 1900, but it was not, of course, thought of as

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[1] Ibid., p. 268.

[2] D. M. Phelps, Marketing Research (Ann Arbor: Bureau of Business Research, University of Michigan, 1937), p. 87.

marketing research by any of the governments involved. Rome developed the best of the ancient censuses, attaining an exactness of detail previously unknown. This was particularly true of the population enumeration, the investigation of property, the surveys of roads, and the assessment of real estate taxes. In the population counts were included such designations as free and slave, domestic position in the family, etc.[1] These early censuses were not, however, of much use to the vendors of merchandise. They were usually treated as secrets of state.

The Constitution of the United States merely called for an enumeration of the inhabitants of the United States. It was early recognized, however, that there was an opportunity to procure other useful information at the same time. The schedule of the first census of the United States consisted of an enumeration of six items: the names of heads of families; the number of free white males of sixteen years and over, including heads of families; the number of free white males under sixteen years of age; the number of free white females, including heads of families; the number of all other free persons; and the number of slaves.[2] With the development of the census the inquiries on the population schedule have tended to multiply. The decennial Census of Population of the United States has become one of the market analyst's most important basic data books. Its use as a source for general population statistics is obvious. To answer questions concerning where people live, how old they are, what educational attainments they possess, their family status, etc., it is most valuable.

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[1] Halbert L. Dunn, "Census--Past and Future," Journal of the American Statistical Association, Vol. 35, No. 209, Part II (March, 1940), p. 243.

[2] Ibid., p. 247.

Also of great use to the marketing man is the Census of Manufactures which assembles, biennially, manufacturing statistics of a wide range. It classifies the data by kinds of merchandise, numbers and sizes of producing units, numbers of persons employed, value of finished products, costs of raw materials, and value added in the process of manufacture.[1] This information is particularly useful in determining growth trends in the manufacture of different kinds of goods. The census totals serve as a base for determining the proportion of total product which the output of a particular manufacturing company represents and the relations between growth rates of an industry and of particular concerns in an industry. The Census of Manufactures classifies its statistics by states as well as by industries. This makes possible comparison of growth rates by geographical areas. Prior to 1899 the Census of Manufactures was taken decennially, between 1899 and 1919 it was taken at five-year intervals, and since 1919 it has been taken at two-year intervals, except during the war period, providing data for each year ending in an odd number.

Probably the most important of all single contributions to our knowledge of marketing, at least from a structural viewpoint, was made by the Census of Distribution which was taken for the first time as a part of the Fifteenth Decennial Census in 1930, providing data for the year 1929. The Bureau of the Census made a trial census of distribution in eleven cities in 1927, which provided valuable experience for the much larger task of taking the Census of Distribution of 1929. This census gave us, for the first time, a fairly complete picture of our complicated marketing system. It showed just how goods of different kinds were moving from producer to consumer, the relative importance of

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[1] Hugh E. Killough, The Economics of Marketing (New York: Harper & Brothers Publishers, 1933), p. 348.

the various channels through which the goods passed, and the approximate costs of the various types and methods of distribution.

This original Census of Distribution was followed by others. In 1934 a second census of retail and wholesale trade was taken for the year 1933. This provided data for a depression year for contrast with data for 1929, a year of relative prosperity. This was followed by similar censuses for 1935, 1939, and 1948. The first two of these were for years in which business had advanced from the low of 1933, the last was for a postwar year of relative prosperity.

The uses to which Census of Distribution (since 1933 called Census of Business) data can be put in the solution of marketing problems is almost limitless. It can be used for the selection of key markets and the allocation of efforts to them. It is useful as a basis for selective selling by kinds of business, types of operation, or industries, as well as by geographical location. It allows the detection and measurement of trends in a market. It can be used to measure competitive effort, its location, nature, and strength. Furthermore, it is helpful in budget and quota building, the building of sales territories and routing of salesmen, the allocation and measurement of advertising effort, and the development of trading area data.[1] An important collateral result of these censuses has been the impetus given the development of a standardized nomenclature because of the necessity of defining concepts in the field of marketing clearly so that a proper enumeration of business concerns and a correct presentation of the statistics would be possible.

In addition to the information regularly made available by the Bureau of the Census, special data runs can be obtained on a cost basis.

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[1]These and many other uses are discussed in Virgil D. Reed, "Some Suggested Uses for Census of Business Data," The Journal of Marketing (April, 1937), pp. 310-316.

The data compiled by the Bureau can be broken down in many ways other than those commonly employed. These special runs can, of course, be of great value to certain sellers of goods.

Many government agencies other than the Bureau of the Census have contributed to an improved knowledge of marketing. During the 1920's the Department of Commerce began its studies of various phases of marketing. The Federal Trade Commission has conducted many studies in the marketing field. Its studies of chain stores, distribution methods and costs, delivered pricing, and agricultural income are well known. The Bureau of Agricultural Economics of the United States Department of Agriculture has made many studies of the marketing of agricultural products. The Bureau of Home Economics of the Department of Agriculture and the United States Department of Labor have issued a considerable amount of material about consumers and consumption. Much valuable market information, such as department store sales, consumer credit, etc., is included in publications of the Federal Reserve Board.

The Federal Government has been the source of voluminous marketing facts. The story of governmental research in the marketing field, however, does not constitute the complete history of marketing research. Although the Census of Distribution of 1929 is one of the most important bench marks in the history of research into the problems of marketing, and is even cited by some as the beginning of marketing research,[1] many important contributions in this field were made by nongovernmental organizations and individuals long before the year 1929.

Publishing concerns were among the earliest organizations to undertake investigations of marketing problems. This is logical, as they had

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[1] Wilford L. White, "Marketing Research," The Annals of the American Academy of Political and Social Science, Vol. 209 (May, 1940), p. 183.

an impelling economic reason for their efforts. Sale of advertising space is the principal source of revenue of newspapers and periodicals. These publishing concerns discovered that effective arguments for placing advertisements in a particular publication were to be found in the relation of circulation of a periodical or newspaper to population density, income levels, number of retail outlets, number of industrial buyers, racial make-up of readers, and other factors indicative of the potential demand of markets sales messages were designed to reach. The charge that publishing firms, because of the self-interest motivating their research, are likely to produce biased results is frequently made. No doubt there is good reason to be skeptical of much of the work turned out by them, but it is also true that they have made many valuable contributions to the knowledge of the marketing process.

Advertising agencies, like publishing firms, had a very good reason for engaging in marketing research activity at an early date. Knowledge of a client's market and the best way of reaching that market aided them in selling the services they had to offer. The charge of bias and superficiality has frequently been made against the investigations conducted by advertising agencies. It is not to be doubted that many of these studies, because of the promotional purpose they are designed to serve, are not to be classed as true research. On the other hand, many marketing studies made by these agencies have been of excellent quality. Advertising agencies have tended to restrict their efforts to research designed to disclose two things: (1) the location and make-up of markets, and (2) the best way of reaching these markets with a sales message. These are, however, two of the broadest and most important questions in marketing to which answers are needed. Progress made in finding answers to them is to be welcomed.

Marketing research activity among manufacturers and distributors also got off to an early start but has since developed more slowly here than elsewhere. As a group, manufacturers were slow to either employ the services of outside marketing research agencies or to install their own marketing research departments.[1] Much of the marketing research which has been done by manufacturers has been sporadic, miscellaneous, poorly organized, and inadequately financed.[2] Some manufacturing firms, of course, have been among the leaders in marketing research activity. These are exceptional rather than representative. For the past ten years, however, manufacturers have been expanding rapidly in this field, and there is evidence that they will continue to do so, probably at an accelerating rate.

It is through the trade associations of manufacturers and distributors that much marketing research work has been accomplished. An increasingly large number of these associations are collecting current trade statistics, doing research in styling problems, conducting research for the purpose of finding new uses for products of their industries, investigating many phases of competition, and, in general, doing much of the research work in marketing which the members of these associations are unable or unwilling to do for themselves. The marketing research role of trade associations gained added significance during the era of the National Recovery Administration from 1933 to 1935, and also during the immediately following World War II, when they were called upon to represent their respective industries in semiofficial capacities. Some organizations increased their research activities in order to procure the information required for presentations before governmental

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[1] Ibid., p. 185.

[2] Killough, op. cit., p. 462.

agencies.[1] The scope and the quality of trade association research activities have steadily increased, with the result that trade associations have provided their members with descriptive and analytical material of both immediate and lasting value on internal and external questions which would not otherwise have been available to them.[2] It is probable that even greater development of marketing research among trade associations would have taken place had not the antitrust laws made many of these activities questionable.

Much valuable information in the marketing field has been provided by the research activities carried on by universities and foundations. Bureaus of business research, such as those existing at Harvard, Ohio State, Minnesota, Wisconsin, Michigan, Illinois, and elsewhere, have gathered a large and comprehensive body of data on costs of marketing, operating results in retail stores of various types, and marketing opportunities in particular areas for different kinds of consumers' and industrial goods. Universities can do research on such fundamental topics as economic geography, economic facilities, research methodology, and so on, better than can those agencies which expect to make their research produce tangible returns in the relatively short run. The number of foundations conducting research which bears directly or indirectly upon marketing problems has been constantly increasing. Such organizations as the Twentieth Century Fund, Brookings Institution, and the National Industrial Conference Board have made studies bearing upon marketing subjects. The Twentieth Century Fund's study on distribution costs is one of the milestones in the history of marketing. Most of the

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[1] Charles F. Phillips and D. J. Duncan, Marketing Principles and Methods (Chicago: Richard D. Irwin, Inc., 1949), p. 527.

[2] Wilford L. White, op. cit., p. 186

marketing research done by these foundations, however, has been only an incidental part of general economic studies.

There are many firms in existence today which specialize in the field of marketing research. The majority of these offer a line of services that may be designated as general marketing research. They offer a complete research job, from original planning through interviews and questionnaires to tabulation and final report. There are others which specialize in certain sections of this general field, such as radio research, retail store inventory reports, consumer panels, etc. Bradford lists 201 firms which specialize in marketing research.[1] This listing includes only firms which carry on no other activities, such as advertising, manufacturing, etc., and does not purport to be complete. The actual number of such firms in existence is undoubtedly much in excess of this very conservative figure. These firms come and go and change their names so frequently that a complete and accurate listing of them is impossible.

Many of the concerns established to do marketing research work are one-man operations. They spring up overnight and disappear as rapidly. Others are relatively large, well-established firms, equipped to do a thorough and competent job. These organizations typically render two basic services: (1) they advise in the planning, interpretation, and application of marketing research, and (2) they conduct such phases of the work as field investigation and tabulation and analysis.[2] These specialized research agencies do work both for concerns which maintain

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[1]Ernest S. Bradford, Survey and Directory: Market Research Agencies in the United States (New York: Christian E. Burcket and Associates, 1947).

[2]Lyndon O. Brown, Marketing and Distribution Research (New York: The Ronald Press Company, 1949), p. 33.

their own research departments and for firms which have no established research facilities. Such agencies offer many advantages even to firms which have their own marketing research departments. They have field workers and analysts they can get into action quickly. They have broad experience obtained through making different studies for many clients. They offer mechanical facilities and, of great importance, an unbiased, outside point of view.

The history of marketing research reveals many trends. One is towards increasing specialization. Another is towards greater continuity. When the Curtis Publishing Company began its marketing research activity in 1911, it had no idea of where to start its investigations or of what to do. It jumped from a study of the agricultural implement industry to a study of department store lines. Next it was conducting its own census of distribution in cities of over 50,000 population. Then it studied the automotive industry. A brief perusal of Bradford's Survey and Directory of Marketing Research Agencies will indicate a high degree of specialization among marketing research firms of today. Some restrict themselves to government data, some to certain products, and some to particular types of studies.

The trend toward specialization in marketing research has been neither as consistent nor as marked as the trend toward continuity. Many marketing research projects, begun as one-shot efforts, have been subsequently developed on a continuing basis. No doubt this is due, in large part at least, to the valuable results achieved by the initial effort. In part it is probably due to a growing recognition that much of the value of marketing research is lost if it cannot uncover trends or reveal changing conditions. Two well-known authors put it as follows: "It should be almost self-evident that marketing research should be used by most firms

on a continuing basis. This would be true even if it were used for the determination of basic policies only, since even such policies are constantly on trial. As conditions change -- and the marketing world is highly dynamic -- different policies may be required. Continuous marketing research is necessary to keep general policies in line with current developments."[1] Another author presents the following caution: "Market research is not a one-time, one-shot operation. No one is worse off than the manufacturer who -- having made one product or market research study -- thinks he has the answers for all time."[2] This growing recognition of the desirability of continuity is even reflected in the well-accepted definition of marketing research used earlier in this chapter: "Marketing research is critical study and evaluation on a continuing basis of present and potential markets and of marketing operations to the end that policies, methods, and performance in this area may be governed by supportable conclusions and may stand the test of objective appraisal or measurement."[3]

The trends toward increasing specialization and continuity in marketing research are probably the most basic. Other trends, however, can also be discerned. Marketing information is being sought more and more on an individual brand basis. Behavior patterns of the ultimate consumer, in contrast to patterns revealed in manufacturers' and dealers' sales figures, are receiving proportionately more attention. The frequency of procurement of data has also been greatly enhanced.

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[1]Charles F. Phillips and D. J. Duncan, op. cit., p. 519.

[2]A. P. Hirose, "Market Research as a Practical Help in Reconversion Problems," The Journal of Marketing, Vol. IX, No. 4 (April, 1946), p. 349.

[3]American Management Association, A Company Guide to Marketing Research, op. cit., p. 7.

Much marketing research information in past years consisted of data reported only for broad classes of products. Industry sales figures, not broken down by even specific types of products, were often the only sales data available. The Census of Manufactures, for example, classifies products in broad catagories. The Census of Business usually breaks down sales data by classes of commodities, although in some instances sales data are available for individual products. Sales figures are available, for example, for "Furniture, household (except office)." The manufacturer of a certain quality of a specific type of furniture would learn little from this concerning the distribution of the product he has to offer. Coal, wood, and fuel oil are lumped together, as are lumber, building materials, and hardware.

Trade association data are more likely to be broken down by specific product types, but usually not by individual brands. Publishing firms, interested in selling advertising space to many producers, usually provide figures for broad classes of products. The same is often true, but to a lesser degree, of data provided by advertising agencies. The research activities of universities and foundations provide data only for broad classes of products. The manufacturer of a differentiated product desires information concerning his own sales, the factors affecting sales of his own product, etc. Consequently, he has often either subscribed to private research services or has procured such information by his own efforts.

Sellers of goods have evidenced a desire for more information of behavior patterns of ultimate consumers who, in the long run, are the ones who determine his success or lack of success. Much past research in the field of marketing has been based on manufacturers' sales and cost figures, distribution channel data, etc. As is fully explained in subsequent

chapters, these data often provide misconceptions of actual consumer behavior. A growing recognition of this is partly responsible for the increasing emphasis on consumer surveys, consumer panels, consumer inventories, and other research methods which directly reveal consumer action.

There has been an increase in the frequency with which marketing research data is demanded and, as a consequence, an increase in the frequency with which it has been made available. Much marketing data in previous years was provided sporadically. Gradually, its provision became more regular, but still relatively infrequent. Such basic data as the Census of Population is available only every ten years, Census of Manufactures data every two years, and Census of Business data, to date, every two to nine years. The usefulness of such data is limited by the fact that they are often considerably out-of-date. Business is dynamic, and intelligent management requires up-to-date information. Marketing research services which provide it are much more valuable than those which do not. Consequently, business has come to demand current figures, and is very critical of data which pertain to a period too far past.

The retail store audit of the A. C. Nielsen Company and the consumer purchase panel of Industrial Surveys Company are, in a sense, end products in this development of marketing research. They are specialized research services providing information on a continuing basis. Both provide data for individual brands. Both provide consumer sales figures. The consumer purchase panel characterizes the individual consumer and helps to explain his behavior pattern. Both furnish their data frequently to subscribers. Retail store audit data are available every 60 days, consumer purchase panel data every 30 days. Because these two services reflect so well the major trends in the marketing research field, they will form the basis for this study on the economic effects of marketing research.

Present Status of Marketing Research

The preceding account of the development of marketing research does not depict completely enough the present status of this business activity. A greater familiarity with the present state of affairs in this general field is desirable before moving on to an intensive study of two specific marketing research methods. Otherwise, conclusions drawn concerning the uses and effects of these particular methods may not be viewed in the proper perspective.

The Users of Marketing Research

Marketing research, as a semi-formalized or formalized activity, is most prevalent in relatively large companies. One study of marketing research in American industry found only 1.8% of the companies with sales under $500,000 having organized marketing research departments.[1] Companies with an annual sales volume in excess of $5,000,000 possessed marketing research departments in 44.6 per cent of the cases. Of all companies with annual sales of $2,500,000 or less, a category comprising the vast majority of firms in American industry, less than 6.7 per cent have organized marketing research departments. This does not, of course, imply that firms which have no organized departments for conducting marketing research do nothing whatsoever in this field. Of companies with sales of less than $500,000, 21.3 per cent reported the conduct of marketing research as a

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[1] Heusner, Dooley, Hughes, and White, "Marketing Research in American Industry: I," The Journal of Marketing, Vol. XI (April, 1947), p. 340. This is a study made jointly by the Committee on Marketing Research Activities of the American Marketing Association and the Distribution Committee of the National Association of Manufacturers. Findings are based on mailed questionnaires with a net return of 36 per cent on 13,000 questionnaires. It is not contended that the sample is representative of all American industry. However, because it is one of the few studies to cast any light whatever upon the present status of marketing research, frequent reference will be made to it in this dissertation.

line executive function. There is reason to doubt, however, that this constitutes true research. Line executives claimed in this study to be performing so many marketing research functions that it is hardly conceivable that they could be conducting this work in a scientific manner and still be fulfilling their primary duties. The investigators conducting the aforementioned study put it as follows: "In several cases where a line executive was doing marketing research, the price and demand study functions, among others, were indicated. Because of the time required for such studies and the difficulty of arriving at sound conclusions, it would appear that the executive considered that he performed such functions when he talked to other manufacturers and to wholesalers and retailers regarding demand for his product and price changes."[1] Even if we should accept such activities as marketing research, we still have a situation in which 76.9 per cent of firms with sales of less than $500,000 and 63.6 per cent of those with sales between $500,000 and $2,500,000 report no marketing research activities of any kind.

A significant difference in the conducting of marketing research exists between companies manufacturing consumers' goods and those producing industrial goods. A study by the United States Department of Commerce reveals that 41 per cent of consumers' goods manufacturers conduct some marketing research, whereas 31 per cent of the industrial goods manufacturers engage in this activity.[2] These figures are not far from those reported in the American Marketing Association survey, which indicates that 46.4 per cent of consumers' goods companies carry on

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[1]Heusner, Dooley, Hughes and White, "Marketing Research in American Industry: II," The Journal of Marketing, Vol. XII, No. 1 (July, 1947), p. 34.

[2]Elma S. Moulton, Marketing Research Activities of Manufacturers, U. S. Department of Commerce, Market Research Series No. 21 (Washington: Government Printing Office, 1939), p. 5.

marketing research activities, 15.1 per cent through organized departments, while 35.2 per cent of industrial goods companies perform marketing research functions, 9.6 per cent through organized departments.[1] This greater emphasis upon marketing research in the consumer product field is understandable. The manufacturer in this field must keep abreast of constant and complex changes in a vast market. He often sells his product through an elaborate distributive system that includes many different types of middlemen. Intangible factors, such as style and fashion, are of great importance. The manufacturer of industrial goods, in contrast, usually moves his product through a relatively direct distribution channel, sells in a much narrower and more clearly delimited market, and tries to capitalize upon an appeal to rational buying motives.

Within the industrial product group, concentration of market research endeavor varies inversely with the directness of the channel of distribution employed. Manufacturers selling through distributors do marketing research in 42.7 per cent of the cases, while only 29.9 per cent of those selling direct to industrial users carry on marketing research.[2] Among consumers' goods manufacturers a strange situation exists. Of those selling direct to retailers, 47.9 per cent do marketing research, while only 45.1 per cent of those selling through wholesalers use it.[3] This is just the opposite of the situation one would expect. Presumably it is explained by the fact that a substantial number of large firms, which do most marketing research work, make use of a direct channel of distribution.

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[1] Heusner, Dooley, Hughes, and White, Part I, op. cit., p. 340.

[2] Ibid., p. 342.

[3] Ibid., p. 342.

Use of Outside Specialists

We have already noted that marketing research activities are carried on by a great variety of institutions, including the government, trade associations, universities and foundations, publishing firms, marketing research agencies, advertising firms, manufacturers, distributors, and others. With so many different firms performing marketing research functions, it would be of interest to know what percentage of business firms who desire certain information procure the required data through their own efforts, and what percentage rely upon outside specialists to do such work. Only a rather confused picture of this situation can be obtained. The American Marketing Association survey referred to above indicated that approximately one-third of the companies reporting marketing research expenditures do most of their own research, whereas another one-third are about evenly divided between the employment of advertising agencies and marketing research consultants.[1] The remaining one-third of the companies in the sample involved did not answer the question. These results are in close conformity with those reported in the Department of Commerce study previously referred to, which states that 61 of the 188 companies (approximately 32%) in its sample found to be conducting marketing research had such work done by outside agencies.[2] The figures from these two surveys, however, are not in agreement with the one reported by the National Industrial Conference Board, which found two-thirds of the companies involved in its sample regularly employing outside specialists to do at least a portion of their marketing

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[1]Heusner, Dooley, Hughes, and White, Part II, op. cit., p. 30.

[2]Elma S. Moulton, op. cit., p. 5.

research work.[1] No ready explanation for this difference is available. About all that can be said, therefore, is that from one-third to two-thirds of companies employing marketing research make use of outside specialists. The relative importance of the various types of outside specialists cannot be ascertained.

Research Done -- By Types

The several studies which have been made of the marketing research activities of manufacturers provide ample evidence of the fact that present day marketing research activities cover a broad area.[2] The listings of marketing research activities of manufacturers contained in these studies, however, do not provide a clear picture of the relative emphasis placed upon various types of marketing research endeavor. Each of these studies lists manufacturers' marketing research activities in order of importance, but the listings are not in agreement. In the first place, the terminology employed is different in each study. Consequently, activities which rank high in importance in one study cannot even be found in the others. The terms used are sufficiently ambiguous so that there can be no certainty when the same things are being referred to, although there is probably a high degree of duplication in the lists. Secondly, even in the case of activities which clearly appear on both lists, there is little comparability in their rankings. The Journal of Marketing survey, for example, cites "Forecasting Sales" as the leading

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[1] National Industrial Conference Board, Organization For Market Research, Part 1 (New York: National Industrial Conference Board, 1945), p. 13.

[2] The studies here referred to are: (1) Heusner, Dooley, Hughes, and White, op. cit.; (2) Moulton, op. cit.; (3) National Industrial Conference Board, op. cit.

marketing research activity of manufacturers. Nothing comparable to this is to be found in either of the other studies. The determination of sales potentials holds the second place ranking in the Journal of Marketing study, yet is placed fourth in the National Industrial Conference Board study.

In spite of these difficulties, it is possible to discover from these studies some sort of pattern of marketing research activity among manufacturers. Research tasks designed to appraise sales opportunities and sales performance, both absolute and relative to competitors, have received the most attention. Much effort has been spent in analyzing the characteristics and make-up of markets. Consumer markets have been broken down according to income, nationality, home ownership, buying habits, and other features which bear on the ability of persons to consume. These analyses are used in the determination of sales quotas, distribution units, advertising expenditures by area and by media, store location, and a host of other things.[1] The analysis of market statistics, especially those having a bearing on over-all business conditions, receives much attention.

No doubt these efforts produce results of great value to the business community. Doubt has been expressed, however, that the marketing research endeavor of manufacturers is being as wisely directed as possible. The Journal of Marketing study expresses this doubt as follows: "It may be said that in general the respondent companies were more interested in the results of their sales and advertising activities and opportunities than they were in the means by which those opportunities could

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[1] F. L. Thomsen, "How Good is Marketing Research," Harvard Business Review, Vol. XXIV, No. 4 (Summer, 1946), p. 454.

best be utilized, or in how the results could be improved. This is a little like locking the door after the horse is stolen and certainly points to the need for broadening marketing research activities in many companies to find out how sales and advertising results can be improved."[1]

Another author suggests that there are two broad fields in which marketing research is badly needed, but very little is being done.[2] These fields are the determination of pricing policies and the cutting of distribution costs. This opinion is borne out by some of the conclusions reached in the studies of marketing research referred to previously. The National Industrial Conference Board study lists twenty-nine marketing research functions in the order of importance accorded them by manufacturers engaged in marketing research.[3] Studies of pricing policies rank twenty-seventh in a list of twenty-nine. Studies of distribution costs rank nineteenth. Rankings accorded these activities in the Journal of Marketing study are not accomplished on a comparable basis, but here again they are not among the leaders. It seems, therefore, that the conclusion is warranted that firms using marketing research are primarily interested in the market to which their products are going, and only secondarily concerned about discovering the best ways of getting the products to those markets.

Funds Devoted to Marketing Research

Although marketing research activity has been increasing since attention was first directed toward it early in the twentieth century,

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[1]Heusner, Dooley, Hughes, and White, Part I, op. cit., p. 343.

[2]Thomsen, op. cit., p. 454.

[3]National Industrial Conference Board, Organization For Market Research, Part 1, op. cit., p. 12.

it has not yet been recognized as a major business tool by business management. The Journal of Marketing study provides the information that companies with marketing research departments spend 0.28 per cent of net sales for research in the marketing field. In those cases where marketing research is a function of a line executive, 0.29 per cent of net sales are spent on this activity.[1] These figures agree closely with the results of the National Industrial Conference Board study, which showed that the cost of marketing research activity averages 0.3 per cent of net sales.[2] It must be remembered in viewing these figures that only 23 per cent of the firms doing an annual sales volume under $500,000 engage in marketing research of any kind, and only 73 per cent of the relatively small number of firms with sales of over $5,000,000 do so.

American business is industrial research minded. It is estimated that from $500,000,000 to $750,000,000 is spent annually on industrial research.[3] Estimates of expenditures made for marketing research range from $30 to $50 million, somewhere between 4 and 10 per cent of industrial research outlays.[4] A survey by Sales Management revealed that 9.86 times more people are engaged in engineering or chemical research, production control, factory cost accounting, etc., than are employed in market research, sales cost control work, and sales and distribution planning, and that 15.23 times more dollars are spent in the first named activities than in the latter.[5] This situation exists in spite of the fact that

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[1]Heusner, Dooley, Hughes, and White, Part II, op. cit., p. 26.

[2]National Industrial Conference Board, Organization For Market Research, Part 1, op. cit., p. 9.

[3]Phillip Salisbury, "Why Does Distribution Cost So Much?" Sales Management, Vol. 55, No. 6 (September 15, 1945), p. 35.

[4]Ibid., p. 2.

[5]Salisbury, "Why Does Distribution Cost So Much?" op. cit., p. 36.

marketing activities consume nearly 60 per cent of the consumer's dollar.[1] Robert T. Haslam comments as follows concerning the situation existing in Standard Oil Company (New Jersey):

> In my own company, we would have to spend between 7 and 8 million dollars per year on marketing research, if the amount of money to be so spent was to be proportioned, in the ratio of relative operating expenses, to the amount spent on manufacturing research. Actually, our marketing research expenditures are considerably less than 100 thousand dollars per year. It is difficult at this stage to say how much should be spent, but the relative expenditures look out of proportion.[2]

Future Expectations

The position and prestige accorded marketing research have been gradually improving. Although it is still often true that company executives, instead of welcoming help from marketing research personnel, actually resent any effort to analyze the operations and results of their departments, business generally is coming to rely on marketing research more and more both as a guide in day to day operations and in the formulation of over-all policy. One study of marketing research reports that two out of five companies with marketing research departments influence company policy directly by means of representation on the executive council or on policy-making committees, or by a system of reporting directly to the president any findings that should be considered in making company policy.[3]

The Journal of Marketing study provides some data which indicate that industry does recognize the value of marketing research and its contribution to past success, especially where an organized marketing research

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[1] P. W. Stewart and J. F. Dewhurst, Does Distribution Cost Too Much (New York: Twentieth Century Fund, 1939).

[2] Robert T. Haslam, "The Need For Research in Marketing," op. cit., p. 7.

[3] National Industrial Conference Board, Organization For Market Research, Part 1, op. cit., p. 12.

department exists. In those cases where marketing research is a function of a line executive, there is a somewhat less favorable reaction. Where companies have done no marketing research, however, there still seems to be little appreciation of the contribution marketing research can make.

Of those companies with organized marketing research departments, 78.9 per cent indicated an intention to expand their marketing research activities. Where marketing research was handled as a line executive function, 37.2 per cent expected to organize a marketing research department. Of those companies previously doing no marketing research, however, only 6.6 per cent planned to organize for this activity.[1] These data seem to indicate two things. First, experience with marketing research leads to an appreciation of its value and a desire to expand activity in this field. This is especially true in those cases where a separate department exists for handling marketing research. Where it is handled as a line executive function, the value of marketing research seems to be less commonly acknowledged. No doubt this is due in large degree to the lower quality of the work turned out under such an arrangement. Secondly, these data would seem to indicate that we can expect more emphasis to be placed upon marketing research in the future.

Summary

Marketing research of the type we know today has a relatively recent origin. Practically unknown prior to the twentieth century, it has had a period of rapid growth. Today, marketing research activities are being carried on by a vast number of institutions, private and public, specialized and non-specialized. In spite of the very rapid progress which has been made in this field, however, expenditures on this activity

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[1]Heusner, Dooley, Hughes, and White, Part II, op. cit., p. 31.

are still relatively small. Only a small fraction of net sales, much less than one per cent, is devoted to this work by those companies which make use of marketing research. Many companies have as yet engaged in no effort along these lines. Relative to technological research, scientific investigation directed at the solution of marketing problems plays a minor role. There is reason to believe, however, that marketing research endeavor will continue to increase in importance, possibly at an accelerating rate.

The basic function of marketing research is to bridge the gap existing between producer and consumer which makes communication between them difficult. It can fulfill this function by accomplishing two things. First, it can provide information relating to the nature and extent of the market for a product. Second, it can provide information concerning the methods available for meeting that demand.

There are several major trends discernible in the development of marketing research. Foremost among these are the trends toward greater specialization and greater continuity in marketing research. Government bureaus and private research agencies have tended to specialize in the provision of certain types of information. Much marketing research, begun as a one-shot effort, has been continued to provide periodic data. Other apparent trends include attempts to obtain data from the actual consumer market rather than data available at the manufacturer and distributor level, the increasing demand for data concerning individual brands, and the increase in frequency with which these data are demanded and made available. The retail store audit and consumer purchase panel methods of marketing research reflect these trends. Consequently, they form the basis of this study.

CHAPTER II

THE RETAIL STORE AUDIT AND CONSUMER PURCHASE PANEL METHODS OF MARKETING RESEARCH

A thorough study of the economic effects of marketing research can be made only after a comprehensive analysis of all marketing research methods. There are so many methods of marketing research, however, and an analysis of each method would consume so much effort, that it is not possible for this dissertation to be of so broad a scope. Rather, two specific marketing research methods have been singled out for study. The continuous retail store audit method utilized by the A. C. Nielsen Company of Chicago, and the consumer purchase panel research carried on by Industrial Surveys Company, of New York and Chicago, have been chosen. Selection of these particular marketing research methods was made because they are, in a sense, the end products of the growth of methods in the marketing research field. As was pointed out in chapter one, the trend in marketing research has been toward greater specialization, greater continuity, closer study of the actual purchasing patterns of consumers, emphasis on individual brand data, and increased frequency in the procurement of data. These particular marketing research services reflect these trends better than most others.

There are other reasons for choosing these two particular services. They are well known, national in scope, and subscribed to by a relatively large number of users of marketing research data. Consequently, data necessary for an evaluation of them are more likely to be available.

Also of importance is the fact that these services offer the same information to a number of clients. The economic effects produced by market knowledge are not likely to be the same if competitors have the same information as if each has different data. Finally, subscription to these two research services involves a sizable expenditure by the subscribing firm. As a consequence, the data so obtained are more likely to be seriously studied and used than would be the case for some minor research effort. Therefore, economic effects are more likely to exist.

There are other "continuing" marketing research services of a type similar to the Nielsen Retail Store Audit and Industrial Surveys' National Consumer Panel. A store inventory and sales reporting service on various household appliances is provided by Dun and Bradstreet. The Burgoyne grocery store audit service provides semi-continuous reports for testing operations in a limited number of cities. The J. Walter Thompson Advertising Agency and the Batten, Barton, Durstine and Osborn agency maintain consumer purchase panels. Several newspapers maintain local purchase panels. Newspapers in various metropolitan cities have established continuing audits of grocery stores in their areas. These other services, however, either are not generally available, are limited to a local area, or do not provide data as frequently as the Nielsen and Industrial Surveys services.

The A. C. Nielsen Company's Retail Store Audit Method

The retail store audit technique was originated by the A. C. Nielsen Company in 1933.[1] In that year, it established its Drug Index. A year later, its Food Index was inaugurated. It set up its Liquor Index in 1938,

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[1] Guide to Drug Store Marketing in the United States (Chicago: A. C. Nielsen Company, 1949), p. 154.

a Variety Store Index in 1947, and indexes on pharmaceuticals in 1948. The A. C. Nielsen Company has enjoyed a large measure of success. Starting with an organization of twelve people in 1933, the Company has grown to include some 1,700 employees in the United States, Canada, and the British Isles.

The organization and operation of these panels is relatively simple. Each of the panels is based fundamentally on data obtained from the U. S. Census of Distribution, somewhat modified by Nielsen's own continuing studies of changes in retail distribution. Every sixty days some 1,800 food stores, 1,000 drug stores, and several hundred liquor stores and variety stores are audited by a permanent staff of auditors. The store sample for each index is divided according to store type -- for example, grocery stores and combination grocery and meat stores. It is also divided according to store ownership -- chain, voluntary chain, and the regular independent store. It is further divided according to store size and location. Nielsen has nine territories for which data is provided.

The basic auditing technique employed in determining retail sales is a simple one. To the inventory of a particular product on hand at the time of the last audit is added the quantity received in the store since that date. The difference between this figure and the present inventory figure must be consumer sales. The data so obtained are then projected to a national volume basis. In this form, the data are presented to the Company's clients.

Although the basic objective of the Nielsen service is the provision of consumer sales figures, much ancillary information is obtained at the same time. The data provided as a part of the standard service of

the A. C. Nielsen Company includes:[1]

1. Sales to consumers.
2. Purchases by retailers.
3. Retail inventories.
4. Stock-turn.
5. Distribution (% of all stores handling a product).
6. Per cent out-of-stock.
7. Prices (wholesale and retail).
8. Retail gross profit.
9. Direct vs. wholesale purchases by retailers.
10. Average order size by retailers.
11. Dealer push (displays, special prices, dealer advertising, etc.).
12. Total sales -- all commodities.

This information is reported to the client in terms of the total product classification, the client's own brand, and relative to any competitive brand or brands, depending upon the extent of the service to which the client subscribes. The data is further broken down by territories, city size groups, store types and size, and package size.[2]

It should be noted that the A. C. Nielsen service usually does not provide total sales figures for either an individual brand or a product type. It reports only sales made through a particular type of store. Most products move to consumers through a number of types of retail outlets, and many products sell in large volume to various types of wholesale consumers, such as hotels, institutions, restaurants, etc. Only a part, therefore, of

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[1] Solving Marketing Problems of Drug Retailers and Manufacturers (Chicago: A. C. Nielsen Company, 1939), p. 10.

[2] Ibid., p. 10.

the total consumer movement of a product is likely to be reflected in Nielsen figures. The extent to which complete sales figures are reported depends in part on the completeness of the service to which the client subscribes. For a product such as soap, sold through both grocery stores and drug stores, a more complete picture of total sales is obtained by subscription to both the Food Index and the Drug Index than by subscription to either service alone. Also, much information not provided by Nielsen's standard service can be obtained by special arrangement with the A. C. Nielsen Company.

Industrial Surveys' National Consumer Purchase Panel

The consumer purchase panel of the type maintained by Industrial Surveys Company is of more recent origin than the retail store audit technique. The National Consumer Panel of Industrial Surveys Company was first placed in operation in 1942. At that time it included some 2,000 families who reported monthly their purchases of various food and drug items. After World War II, this panel was expanded to approximately 5,000 families who report weekly. Reports to clients, however, are made only once each month.

The panel employed by Industrial Surveys is based on Census of Population information, being constituted so as to reflect the make-up of the total population with respect to family size, income, schooling, age brackets, etc. One member of the family is designated to keep a complete record of all purchases made by the family and to submit a report to Industrial Surveys each week. Each family is compensated by being awarded "points," the number of points received depending on the diligence with which it is making its reports. These points may then be applied by the family in payment for merchandise. The average family

in the panel receives approximately $80 worth of merchandise each year.

The consumer purchase panel of Industrial Surveys, like the retail store audit of the A. C. Nielsen Company, provides more than a simple record of the quantities of a product purchased. This panel gives answers to the following continuing questions:[1]

1. What did you buy today?
2. Where did you buy it?
3. How much did it cost?
4. What programs (radio, television) did you listen to?
5. What magazines came into your home today?
6. Where do you live?
7. How many persons in your family?

   Who are they?

   Where do they work?

   How much do they earn?

Like the Nielsen data, Industrial Surveys data are reported on a national volume basis for the product class and for individual brands, broken down by city size groups, income classes, size of family, age of housewife, and ages of children. Customarily, Industrial Surveys reports data for from six to eight geographical areas, although the data can be broken down for as many as twenty-eight separate territories. Complete purchase records for over 3,200 families are now available for periods covering two or three years, making possible trend analysis, frequency of purchase analysis, and other analyses which would not be possible with short-term data.

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[1]Samuel G. Barton, "The Consumption Pattern of Different Economic Groups Under War Changes," The Journal of Marketing, Vol. VIII, No. 1 (July, 1943), p. 51.

It should be remembered that Industrial Surveys data, like Nielsen data, does not include total sales of a particular product in most cases. The National Consumer Panel measurement relates to the consumption of a product by families or households. It does not measure the sale of a product to industry or the institutional market. It does, however, in contrast to the Nielsen service, measure all purchases of the family-consumer unit, regardless of the type of retail outlet through which the product was acquired.

Points of Contrast

Too often the assumption is made that the retail store audit and the consumer purchase panel provide duplicating data, and are thus strictly competitive services. If such were the case, it would be unwise for an individual firm to subscribe to both. Yet, there are many users of marketing research who do just that. This is not a mistake, for although there is some duplication in data provided by the two services, most of the information offered by one is not available from the other. Both the retail store audit and the consumer purchase panel provide consumer sales figures, which are usually a much more reliable guide to policy formation in the merchandising field than are factory sales. Even here, however, there is some difference between the data offered. The retail store audit provides sales figures only for the type of outlet or outlets checked. The consumer panel method covers all family-consumer purchases, regardless of the type of outlet concerned.

The Nielsen service reports what is happening <u>at the retail store level</u>. It reveals the number and kind of stores handling the product, the extent to which retailers are "out-of-stock," the size of and fluctuations in retail inventories, the wholesale prices and retail margins prevailing, the size of retailer purchases, the promotional activity

engaged in by retailers, the extent to which retailer purchases are made direct from manufacturers rather than through wholesalers, and the rate of stock-turn at the retail level. These pieces of information, essential to the formulation of a sound distribution policy, cannot be obtained by use of the consumer panel technique.

The consumer purchase panel reveals what is happening at the consumer level. It identifies the families who purchase a product, indicating where they live, whether they are small or large families, the magnitude of their incomes, the ages of their children, the extent of their education, the nature of their employment, and so forth. In a sense, the consumer purchase panel picks up where the retail store audit leaves off. It gets closer to the consumer, his actions and his motivations. Yet, it does not provide the information available from the retail store audit. As a consequence, the two services can best be viewed as supplementary, rather than as competing.

Who Uses These Data?

The subscribers to A. C. Nielsen Company and Industrial Surveys Company services could be classified on many bases. There are two bases for classification, however, which are of primary importance. The first of these is the type of products which they produce. The second is the size of the subscribing firm.

Types of Goods Produced

To classify subscribers to the retail store audit of the A. C. Nielsen Company according to goods produced is relatively easy because the service is limited to products passing through certain types of retail outlets. As described in the preceding chapter, the A. C. Nielsen Company maintains panels of grocery stores, drug stores, liquor

outlets, and variety stores. Therefore, subscribers to the Nielsen service are primarily manufacturers of foods, drugs, liquors, and household items which, although not specifically within these categories, tend to move through the same retail outlets. Illustrative of such household items would be waxes, cleansers, and laundry products.

Theoretically, Industrial Surveys Company can, by means of its consumer panel technique, provide consumer purchase data for any product entering the household, although there are technical difficulties involved in measuring the consumption of certain articles. Actually, subscribers to Industrial Surveys data produce and sell the same types of products, with the exception of liquors, as do the clients of the A. C. Nielsen Company. Of the 34 clients which Industrial Surveys Company had as of November 1, 1949, twenty-three were producers of food products, four were drug product manufacturers, and six subscribed to data on household items commonly sold through grocery and drug stores.[1] Since that date Industrial Surveys has added twelve new clients. Their products likewise fall in these three categories.

The products for which these services provide data are alike in many basic respects. All of them can be classed as "convenience" goods. That is, they are items which consumers desire to purchase with a minimum of effort. They are products of relatively low unit value, purchased in small quantities at frequent intervals, and a large portion of total purchases are made on impulse. Brand preference among consumers is relatively limited. As a consequence, broad distribution through a large number of retail outlets is essential. This requirement usually makes distribution through wholesalers essential. Direct distribution

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[1] This information furnished the author by Industrial Surveys Company.

to retail stores by the manufacturer would be prohibitively costly.[1]

Subscribers to the A. C. Nielsen and Industrial Surveys services, therefore, are predominantly firms which market their product through what is known as an "indirect" channel of distribution, i.e., they sell through wholesalers. They are sellers who have, in a sense, lost contact with their markets. They do not have direct contact with the retailers who handle their goods. They do not, as a consequence, have complete knowledge of how their product is faring at the retail level. They have availed themselves of retail store audit and consumer purchase panel data in an attempt to fill this void in their knowledge. To be sure, there are some subscribers to these data who do sell directly to retailers. Interviews with such users of these data revealed that they often consider themselves "marginal" clients of these marketing research services. In some instances these firms expressed doubt that they would continue their subscriptions. It appears, then, that the use of indirect channels of distribution and the use of retail store audit and consumer panel data go hand in hand.

The products for which retail store audit data are used, although classified as perishables in some instances, include no highly perishable items, such as fresh vegetables and meats. Meat companies, such as Armour, Swift, and Wilson, use these data only for their canned items. Their highly perishable products require, and use, a very direct channel of distribution. Their own sales organization has direct contact with retail outlets. Consequently, they have continuous knowledge of what is transpiring at the retail level and do not require Nielsen data to obtain such information. Consumer purchase panel data, on the other hand, is in some instances used to provide information on the market for perishable

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[1]For a complete discussion of distribution patterns for goods of these types, consult any basic marketing text.

products. These data pertain to the ultimate consumer market, with which not even the distributors of highly perishable goods usually have direct contact.

Size of Subscribing Firms

Firms subscribing to Nielsen and Industrial Surveys data are relatively large. A glance at the list of clients of either service would convince even the casual observer that small firms are not well represented. A large number of the firms listed are among the leaders of American business. At the same time, however, it is not possible to establish factually the relative size of firms who use these data. The obstacle to such a determination is this: The information available concerning Nielsen and Industrial Surveys' clients on which a breakdown on the basis of size could be made is not comparable to data provided by the Census of Manufacturers. The Bureau of the Census classifies manufacturers according to size on the basis of number of employees. Such information is not available for the individual firms subscribing to these services. The clients of these services can be classified according to size on the basis of sales figures. Sales figures, however, are not included in the census statistics.

It is possible to establish sufficiently for the purposes of this dissertation the relative size of these firms. This must of necessity be a relatively rough classification. Available data are too incomplete for anything more. In spite of this handicap, though, the data are revealing. In viewing Table 1 and Table 2, it must be remembered that the following limitations do exist. First, the complete list of subscribers could not be used. Some of them, such as trade associations, have no sales. Some are privately owned and do not report their sales. Some are foreign owned and do not report sales. For these

TABLE 1

SIZE OF FIRMS SUBSCRIBING TO
INDUSTRIAL SURVEYS DATA, 1949

Sales Volume Class	Number of Subscribers
Under $5,000,000	1
5,000,000 - 10,000,000	1
10,000,000 - 50,000,000	4
50,000,000 - 100,000,000	3
100,000,000 - 1,000,000,000	12
1,000,000,000 - and over	1

Source: The data in this table is derived from a variety of sources. A list of subscribers to these data was furnished by Industrial Surveys Company. Of the total list only those companies whose sales figures are publicly reported in Moody's Manual of Investments, Moody's Investment Service, New York, 1950, are included here. Excluded are privately held firms and such non-selling subscribers as trade associations, the Department of Agriculture, etc. In those cases where the subscriber is a subsidiary and does not report its sales separately, the consolidated sales figure issued by the parent company was used. Obviously, this produces an upward bias in the results.

reasons only about two-thirds of the subscribing firms are included. Secondly, many subscribing firms are subsidiaries and their sales are not revealed publicly. Rather than omit these firms altogether, the consolidated sales figures reported by the parent company were used. Although this makes the firms which subscribe to these services look larger than they actually are, this step is felt to be justified. The operating policies used by these firms, as well as the financial resources at their disposal, is determined in large part by the fact that they are members of a large corporate group. There is no reason to believe that subscribing firms not included in these tables are much smaller, as a group, than those included. Among them are many well-known companies. If this be true, it can be concluded that the firms subscribing to the services offered by the A. C. Nielsen Company and Industrial Surveys Company are not small, regardless of the standard of measurement used.

TABLE 2

SIZE OF FIRMS SUBSCRIBING TO A. C. NIELSEN FOOD-DRUG-LIQUOR INDEXES

Sales Volume Class	Number of Subscribers
Under $5,000,000	2
5,000,000 - 10,000,000	2
10,000,000 - 50,000,000	16
50,000,000 - 100,000,000	3
100,000,000 - 1,000,000,000	22
1,000,000,000 - and over	3

Source: The list of A. C. Nielsen clients used for this table was provided the author by the A. C. Nielsen Company. Otherwise, the sources are the same, and the limitations on the data the same as those noted in Table 1.

Just how large subscribers to these services are relative to manufacturing firms generally cannot, as explained previously, be accurately determined. Table 3 helps to show what the picture is, but may be very misleading. Because a few of the firms using data provided by these particular marketing research services are extremely large, the average

TABLE 3

AVERAGE SALES OF CLIENTS OF A. C. NIELSEN AND INDUSTRIAL SURVEYS COMPANIES COMPARED WITH AVERAGE SALES OF ALL MANUFACTURERS

Group	Average Sales, 1948
All manufacturers	$ 657,000[1]
A. C. Nielsen clients	254,000,000[2]
Industrial Surveys clients	270,000,000[2]

[1]This figure is derived by dividing the total sales figure for 1948 of all manufacturers reported in the Handbook of Basic Economic Statistics, Economic Statistics Bureau of Washington, D. C., 1950, p. 173, by the total number of manufacturers existing in 1948 as reported in The Economic Almanac, 1950, the National Industrial Conference Board, New York, p. 30.

[2]These figures are the approximate means of the company sales figures used in the compilation of Tables 1 and 2.

sales figure for the clients of each service is somewhat higher than the median figure would be. The comparison cannot be on the basis of medians, however, because no median sales figure for all manufacturers exists. As previously pointed out, the Bureau of the Census classifies manufacturers according to size on the basis of number of employees. Thus, the number of manufacturing firms which have sales of less than the average for all manufacturers included in Table 3 is not known. Surely the majority of manufacturing firms have sales which fall below this level. The number with sales equal to the average sales of Nielsen and Industrial Surveys clients must be few indeed.

The Role of the Marketing Research Department

Business firms subscribe to Nielsen and Industrial Surveys data in most cases because their marketing research departments request that they do so.[1] The marketing research departments of subscribing firms receive and study the detailed data provided by Nielsen and Industrial Surveys. In many cases it is the marketing research department which decides the uses to which these data should be put. It also edits and boils down the data preparatory to their broader distribution within the subscribing firm. It is, therefore, in a key position with respect to the influence which these data are likely to exert on company policy. Whether this influence is going to be great or small must depend in part, then, upon the position occupied by, and general set up of, the marketing research department in the subscribing firm.

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[1] When the author asked marketing research personnel why they subscribed to these services, he received detailed answers. When the same question was put to operating executives, the common answer was, "Because our marketing research people wanted it."

The National Industrial Conference Board made a study in 1945 of the organization for market research in American industry. Their findings are well summed up in Tables 4, 5, and 6. The influence wielded by the marketing research department is determined, first of

TABLE 4

POSITION OF DEPARTMENT IN COMPANY ORGANIZATION (154 COMPANIES)

Report to	Per Cent of Companies
President, Executive Vice President or General Manager	39%
Sales Executive	31
Other	30

Source: Reprinted with permission from Organization For Market Research, Part I, National Industrial Conference Board, New York, 1945, p. 5.

all, by its position in the company. If it reports to an executive who is concerned with only a part of the over-all operation, its influence will be limited by that factor. Table 4 shows that in 39% of the cases the research department reports to an executive responsible for over-all company policy, but that in 61% of the cases it does not. Also, the influence which the marketing research department has is affected by the amount of effort which a company gives to the research task. If it devotes the efforts of but a single worker to such activity, or if it makes marketing research an "extracurricular" activity of a line executive, or if it has responsibility for marketing research divided among several operating executives with the likely result that each does little, it has created a situation which makes it difficult for marketing research to be truly effective. Table 5 illustrates the fact that in 56% of the companies included in the National Industrial Conference Board's sample

marketing research was handled in such manner that its effectiveness should be questioned.

TABLE 5

WHO HANDLES MARKET RESEARCH
(154 COMPANIES)

Person or Department	Per Cent of Companies
A Single Research Worker	5%
A Single Executive having other Responsibilities	25
A Separate Centralized Department	44
Several Executives or Departments	26

Source: Reprinted with permission from Organization For Market Research, Part I, National Industrial Conference Board, New York, 1945, p. 5.

All marketing research departments probably have some influence in formulating company policy, but the degree of influence possessed varies greatly. Some influence policy solely through rendering advice. Some have a direct hand in formulation of policy. The National Industrial Conference Board tried to show both the ways in which marketing research departments influence company policy and the extent to which their influence varies with their position in the company organization. Table 6 shows that when a marketing research department is located under the president, executive vice-president, or general manager, it is more likely to affect company policy, and has stronger methods of influencing policy at its disposal, than when it reports to the sales executive or some executive other than those mentioned. Fifteen per cent of the marketing research departments located under the chief executive have direct representation on the management council and an additional one-fourth have representation on committees which formulate or direct policy. One out of five companies whose departments are so located indicate that the marketing research department has a direct influence in formulating

TABLE 6

EFFECT OF POSITION OF DEPARTMENT IN COMPANY ORGANIZATION ON PART TAKEN IN FORMULATING COMPANY POLICY (154 COMPANIES)

Method of Influencing Policy	Department Reports To: President, Executive Vice Pres., General Manager	Sales Executive	Other
Direct Influence:			
Representation on Management Council	15%	9%	9%
Representation on Committees	23	19	4
Miscellaneous	19	17	18
Indirect Influence Only	43	55	69
Total	100%	100%	100%

Source: Reprinted with permission from Organization For Market Research, Part I, National Industrial Conference Board, 1945, p. 7.

policy but do not specify what it is. Thus, the extent to which Nielsen and Industrial Surveys data condition company policy is partially an outgrowth of the way in which marketing research generally is handled by the subscribing firm.

Limitations imposed upon the effectiveness of marketing research data by the position in the company organization occupied by the marketing research department are not as great for Nielsen and Industrial Surveys data as for marketing research generally. This is the result of the unique methods of presentation of the research data used by these organizations. They do not merely send a printed copy of the facts they have gathered to their subscribers, nor do they limit their contacts to the marketing research department. Rather, they provide an elaborate presentation of their data, complete with charts and other visual aids,

to all interested executives of the subscribing firm. This presentation may run from an hour or two to a full day. The presentation includes not only facts uncovered by the research services, but an interpretation and analysis of those facts. Executives who may benefit from the use of these data are able to ask questions, present special problems, etc. By such presentation methods, limitations imposed upon the effectiveness of these data by the limited powers of the marketing research department are partially removed.

Methods of presentation of data such as those used by Nielsen and Industrial Surveys do not completely circumvent problems introduced by the position occupied by the marketing research department in the company organization. It is not usually possible to get all top executives together for these presentations. Some are not sufficiently interested to attend. In addition, and probably much more important, is the fact that the ultimate influence of marketing research data is not determined so much by the method of original presentation of that data as by the subsequent action taken to put that data to use. Adopting that data for use and, in fact, seeing that it is actually put to use, is usually the job of the marketing research department.

Summary

The retail-store audit of the A. C. Nielsen Company provides information concerning factors affecting distribution of a manufacturer's product at the retail store level. It reveals the number and kind of stores handling the product, size of and fluctuations in retail inventories, size of retail margins, promotional activities of retailers, and so on. Such data are made available, of course, only for types of stores included in the Nielsen panels.

The consumer purchase panel maintained by Industrial Surveys Company reveals what is happening at the consumer level. It identifies the families who purchase a product, indicating where they live, size of family, family income, age, education, and so on. In contrast to the retail-store audit, the consumer purchase panel measures all purchases of the family-consumer unit, regardless of the type of retail outlet through which the product was acquired. Like the retail-store audit, it does not measure the sale of a product to industry or the institutional market.

Both these services are subscribed to primarily by manufacturers of convenience goods sold through indirect channels of distribution. These are mainly food and drug items with some liquor and household items included. The clients of these services are relatively large firms, with a median sales figure of over $200,000,000 per year.

The influence these data have upon selling practices is largely a function of the position and influence of the marketing research department within the subscribing firm. By and large, subscribers to these data are large and progressive firms and have well-developed marketing research departments. The influence of these departments, however, varies. Consequently, the effects produced by use of these data are much more pronounced in some cases than in others.

CHAPTER III

SPECIFIC USES OF THESE DATA

It is difficult to obtain, by interviewing executives of firms subscribing to these services, a detailed picture of how they use the information which is provided them. Subscribers to these data tend to state their uses of this information in relatively general terms. They are likely to state, for example, that "it is an aid in directing promotional activities." They can usually suggest only a limited number of specific ways in which they use it to achieve this purpose. They are likely to say that they use it in all specific ways suggested to them by the interviewer, but one has cause to wonder whether they do not believe this solely because the interviewer mentioned it. Nevertheless, the uses discussed below were mentioned in a sufficient number of cases to warrant the conclusion that they are common ways in which these data are employed.

Determination of Market Potentials and Sales Quotas

The term "sales potential" refers to that part of the total expected sales of a commodity which a particular company expects to make.[1] The "sales quota" is a sales goal for a specified period in advance used in the management of sales effort. It implies a breakdown of a total sum into parts which are then assigned to various

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[1] D. M. Phelps, Sales Management: Policies and Procedures (Chicago: Richard D. Irwin, Inc., 1951), p. 196.

members of a group. It is used to refer to the part of the sales potential assigned to a salesman, sales office, or territorial unit.[1] One of the most common uses of retail store audit and consumer panel data is in the determination of market potentials and sales quotas. The data furnished by these services do not include market potential figures. The term "market potential" pertains to the capacity of a market to buy a commodity. These data only reveal the extent to which a market is absorbing a particular product.

Nielsen figures are of more limited value for this purpose than are those of Industrial Surveys. Nielsen can provide total sales figures for all brands of a particular commodity only to the extent that the product moves through the type of retail outlets which they audit. In the case of goods whose distribution is entirely confined to such outlets, total sales figures are obtainable. Few products, however, are so restricted in the channels through which they move. Industrial Surveys Company, on the other hand, reveals total sales to households regardless of the type of outlet from which the product is purchased. Neither service, of course, provides data on institutional sales or sales in the industrial market.

Consumer panel data make possible the correlation of sales with such factors as sex, age, income, city size, number of children per family, etc. Then, knowing the factors which influence demand for a type of product, and being able to determine, in many cases, the presence or absence of these factors in the market area concerned, one is able to arrive at a rough approximation of true market potential. In other words, retail store audit and consumer panel data aid in the determination of

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[1] Ibid., p. 196.

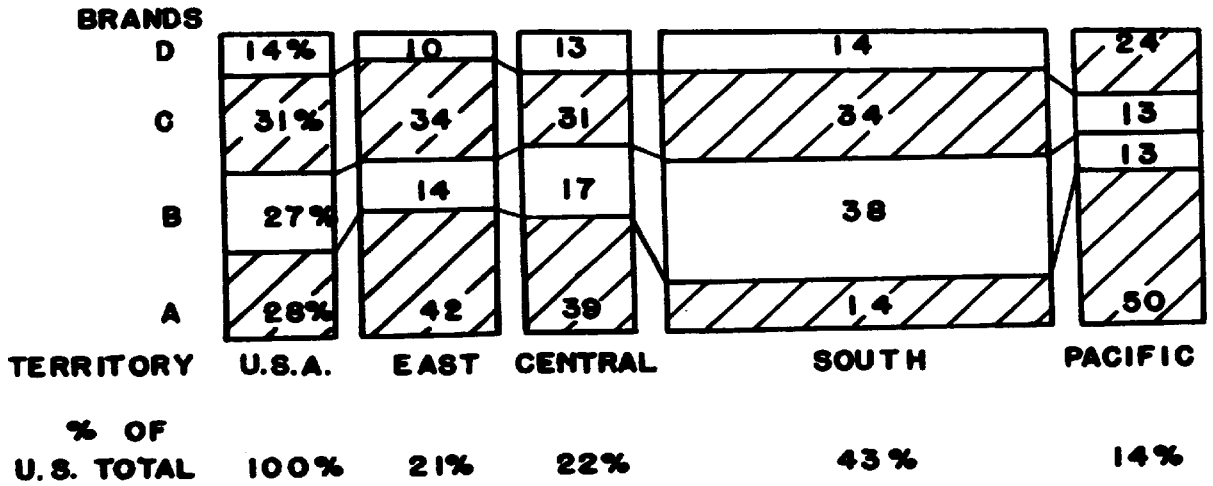
market potentials in two ways. First, they reveal total sales. In many instances total sales figures are available from no other source. Secondly, they show the relationship between certain market factors and the sales volume achieved. Nielsen figures reveal the correlation between total sales and the presence or absence of certain factors at the retail store level. Industrial Surveys data show the extent to which certain consumer characteristics influence sales volume. The information jointly provided by these two services, then, serves as a base from which to proceed in determining the potential demand for goods in the ultimate consumer market. The total sales figures provided by these services cannot be taken as being, in themselves, complete measures of market potential.

These data provide the subscribing firm with the information necessary to a determination of the share of the total market it can reasonably expect to obtain. The share of the total available market for a product which an individual seller can hope to achieve for himself during a specific period depends upon such factors as the strength of competition faced, the trend of competitors' sales, a knowledge of the factors to which a competitor's position is due, and so on. In addition, if he is setting a sales quota figure for a specific period, he should know the seasonal characteristics of the market in which his product sells. This is often not shown by factory sales.

A glance at Figure 1 illustrates the way in which Nielsen and Industrial Surveys data are of aid in the establishment of sales potentials and quotas. It reveals total United States sales for a type of product, the total available market in each of four major areas, as well as the total market broken down by city sizes. As suggested above, such data provide the operating base for the calculation of market potentials.

LOCATIONS OF MARKETS AND COMPETITIVE POSITIONS

PERCENTAGE OF CONSUMER SALES BY TERRITORY



PERCENTAGE OF CONSUMER SALES BY CITY SIZE

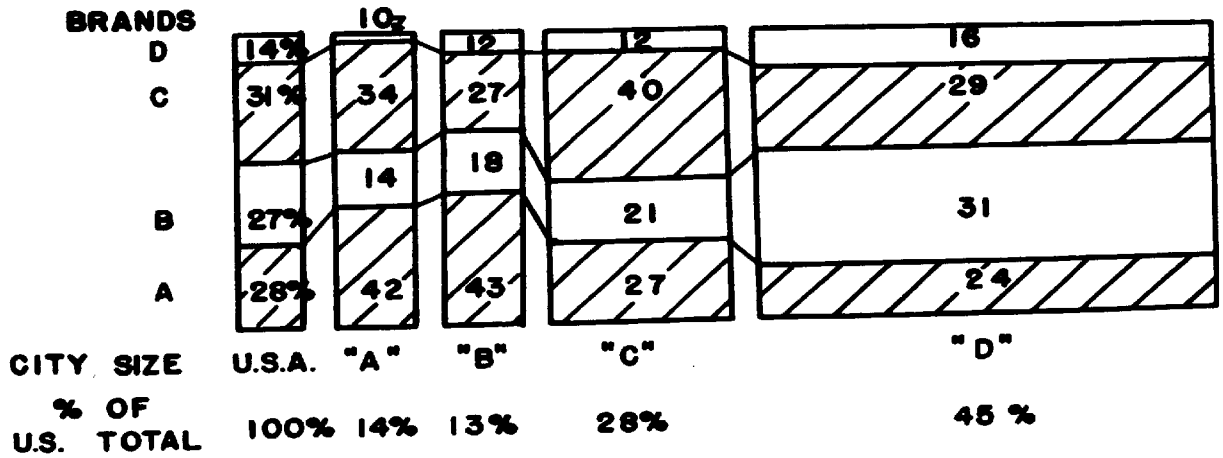


FIGURE 1

SOURCE: COURTESY A. C. NIELSEN COMPANY

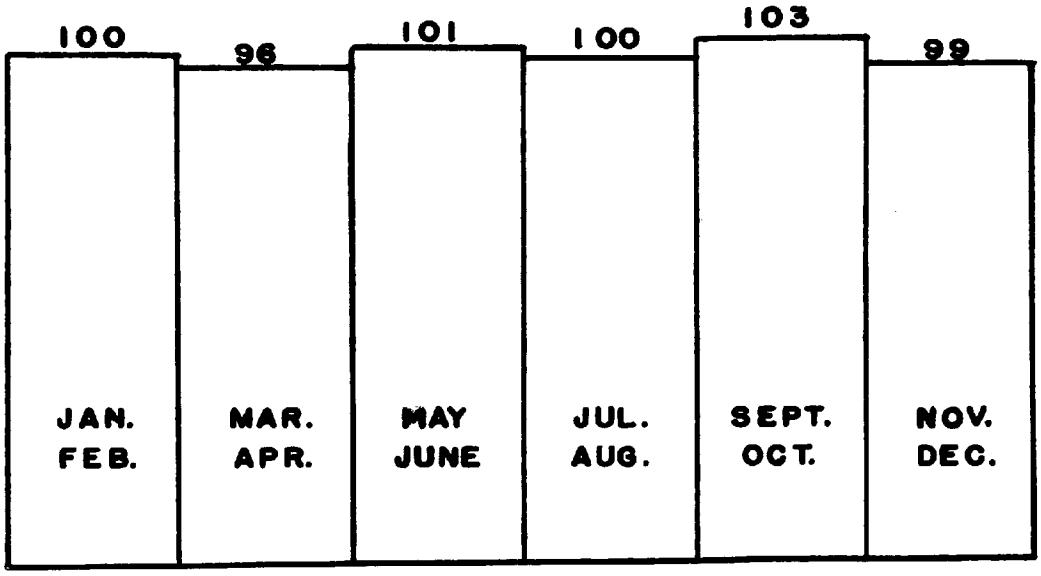
In addition, they reveal the share of the market held by each of four brands in each area and city size. This in itself is a measure of the competition faced. The subscriber to these data knows more, however, about the competition faced than is revealed in Figure 1. Because he receives Industrial Surveys data every 30 days and Nielsen data every 60 days, he knows the trend of competitive brand positions. He also knows the prices of each brand, the outlets through which they were sold, which consumers purchased them, and so on. Given this information, he can make a good estimate of the share of the total market he can hope to obtain during a future period.

When setting sales quota figures for a particular period it is important that the seasonal characteristics of consumer sales be known, not only for the total market, but for each segment of the market for which an individual quota is being set. Factory sales figures often do not reveal seasonal sales patterns which exist at the retail level. Figure 2 illustrates a case in which seasonal variations in total sales were negligible, but in which seasonal sales variations in cities of particular sizes were very pronounced. In setting sales quotas for these areas it is imperative that these seasonal variations be taken into account. Otherwise, completely unrealistic quotas may be established.

Selection of Channels of Distribution

One of the most important problems faced by any seller is the proper selection of the channels of distribution to be employed in getting his products to consumers. To sell through drug stores a product which consumers prefer to purchase in grocery stores is like rolling a bowling ball down Alley One in an attempt to hit the pins set up on Alley Two. Often there are several ways of reaching the same

SEASONAL CHARACTERISTICS OF CONSUMER SALES



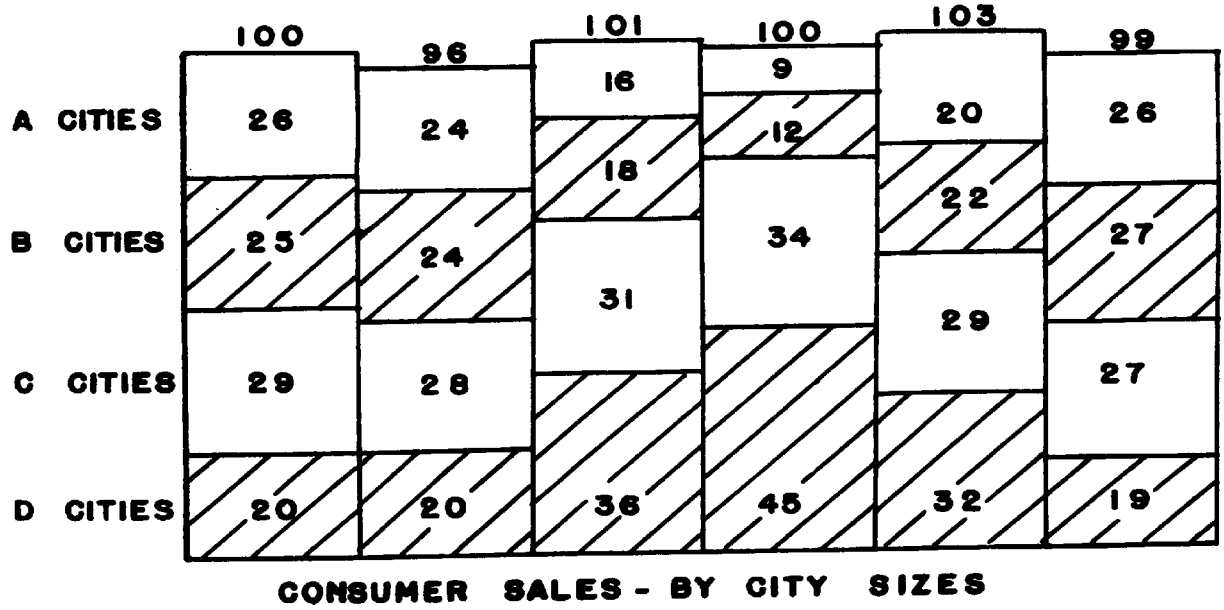


FIGURE 2

SOURCE: COURTESY A. C. NIELSEN COMPANY

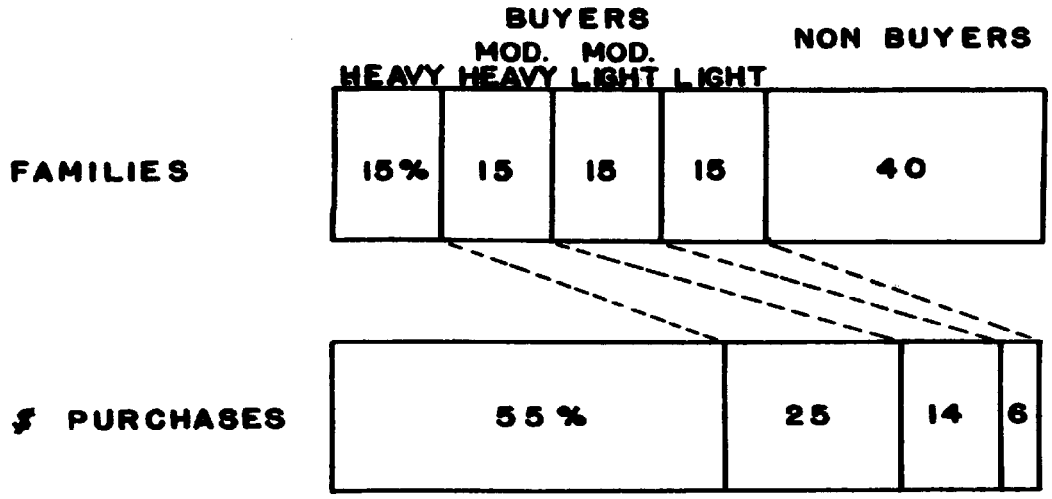
market. The selection of one of the available paths rather than others, however, may give larger sales per dollar of expense incurred. In many cases, if not in most, a combination of channels of distribution must be employed in order to cover effectively the market for one product. In such instances it is essential that the several channels be fitted together in a proper manner and that the proper emphasis be given each.

The channels pertinent to the distribution of a product are primarily a function of three factors: the nature of the product itself, the nature of the market which exists for that product, and the producer who makes the product available. Probably the most important of these factors is the nature of the market. Certainly this is the factor most difficult for the seller to determine. Relatively simple inspection reveals pertinent facts about a producer and the physical nature of his product. The producer cannot stand on a street corner, however, and draw many pertinent conclusions about the market for a product. Many important bits of knowledge concerning the market for a product can be acquired only by careful and scientific research. If one is launching a new brand of a type of product already on the market, both consumer panel data and retail store audit data can be of considerable value to the firm involved. Also, such data or other data comparable to it, can be of immeasurable value in keeping channel use over the long run in step with changing patterns of consumer purchasing.

Some consumers buy much more of a particular product than do others. Figure 3 illustrates a situation which is more typical than unusual. Fifteen per cent of all families account for fifty-five per cent of sales of a personal care type of product. Total sales are confined to sixty per cent of all families. Twenty-nine per cent of sales of a packaged food product are to eight per cent of all families.

DEGREE OF MARKET CONCENTRATION

PERSONAL CARE TYPE PRODUCT



PACKAGED FOOD PRODUCT

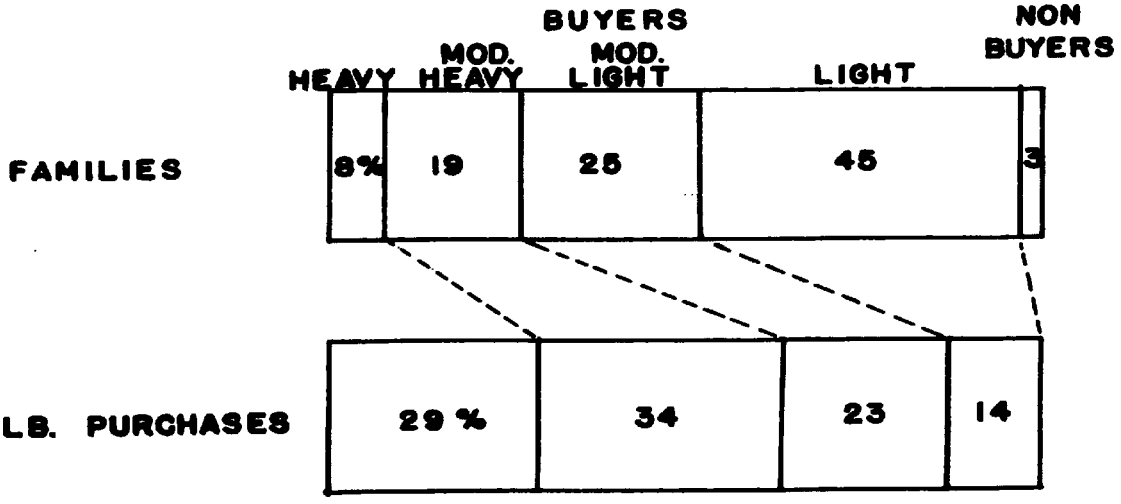


FIGURE 3

SOURCE: COURTESY INDUSTRIAL SURVEYS COMPANY

Eighty-six per cent of sales of this product are to fifty-two per cent of all families. The point to be gained from this illustration is this: the channel of distribution employed for a product must be suited to the needs of those consumers who are significant purchasers of the product. Of course, such data as these must be used with care. It is possible that light buyers do not consume much of the product because channel selection has been poor in the past. There is a likelihood, however, that those who have been heavy buyers in the past will continue to be the seller's most important customers in the future.

A manufacturer of a type of product already established in the market can be aided in his selection of channels of distribution by knowledge of the relative importance of different kinds of retail outlets in the distribution of this product type. Even if he himself has been marketing this type of product for years, he cannot tell from his own factory sales the relative importance of different retail outlets in those cases where the product is sold through wholesalers. This is clearly shown in Figure 4. The manufacturer usually does not know how the wholesaler's business divides among different types of stores. As shown by Figure 4, the Nielsen service can provide firms subscribing to its service with data depicting the relative importance of different outlet types. Nielsen data, of course, can show the relative importance only of those stores from which it collects data. Industrial Surveys data is not limited in this respect.

In making use of these data in determining the channels through which his product should be marketed, the seller must bear in mind that the relative importance of each type of outlet for the product class as a whole is not necessarily indicative of the relative importance of each for his own brand. Figure 5 illustrates a case in which there is

SALES BY STORE TYPES

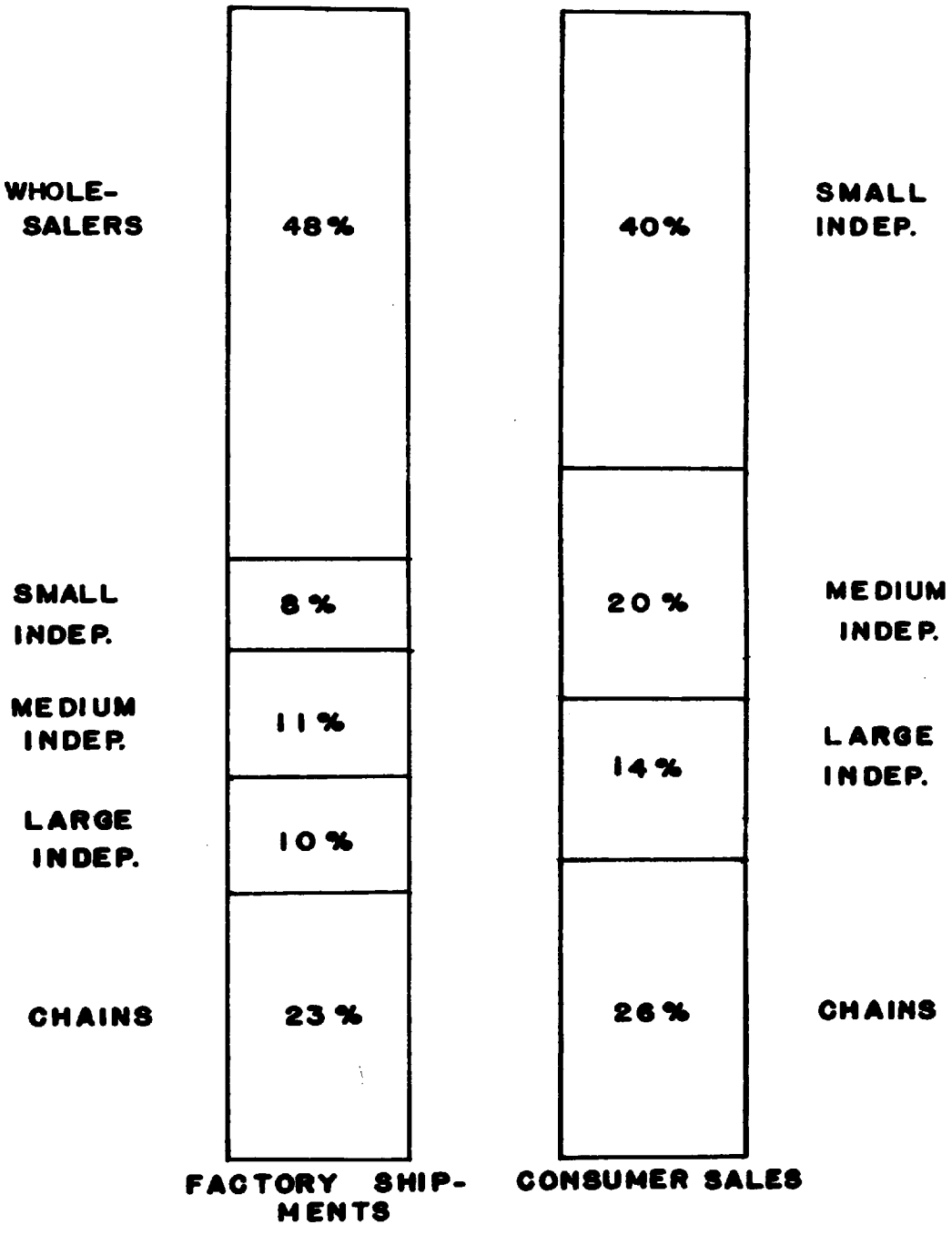


FIGURE 4

SOURCE: COURTESY A. C. NIELSON COMPANY

considerable variation in volume by outlet among brands of the same product class. Probably there are distinct differences among these brands with respect to price, market acceptance, promotional strategy employed, etc. This indicates two things. First, that a manufacturer cannot always judge competitors by his own sales to outlet types; secondly, that the channel of distribution which is most effective for one brand is not necessarily the best suited to another. As previously pointed out, however, Industrial Surveys data reveal not only which consumers are heavy purchasers of a particular brand, but also indicate the outlets from which they acquire it. Thus, if a manufacturer's product has already been on the market for some time, he has some knowledge of the relative effectiveness of different channels.

Once a manufacturer has determined the relative importance of different retail outlets in distribution of the type of product he produces, he cannot relax and forget about the problem. The total situation affecting the sale of his product is continously changing. Table 7 shows the increased importance of miscellaneous outlets from the middle of 1944, when they accounted for 9.7% of a drug product's

TABLE 7

INCREASING IMPORTANCE OF "OTHER" OUTLETS IN SALE OF DRUG PRODUCT

	"Other" Outlet Share of Total Market	One Brand's Share of Total in "Other" Outlets
3rd Q	1944 .... 9.7%	12.4%
4th Q	1944 ... 12.5	11.9
1st Q	1945 ... 13.2	11.6
2nd Q	1945 ... 15.0	12.0
3rd Q	1945 ... 17.4	11.1
4th Q	1945 ... 18.5	10.7

Source: Curtis C. Rogers, "Applications of the Consumer Panel By Government and Marketing Executives," Industrial Surveys Company, Chicago, p. 9.

PER CENT OF SALES OF EACH BRAND OF A DRUG PRODUCT BY OUTLETS

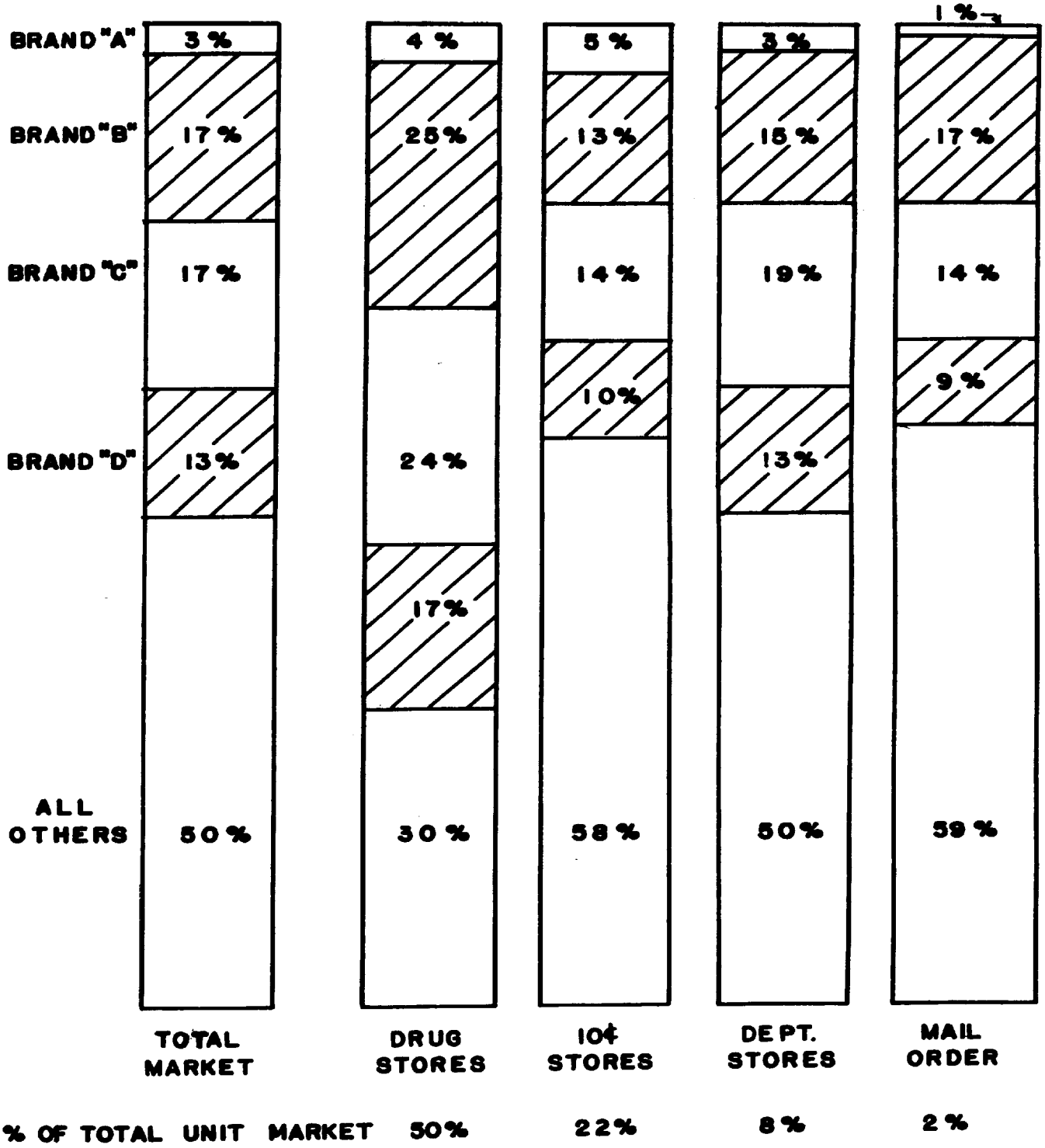


FIGURE 5

SOURCE: COURTESY INDUSTRIAL SURVEYS COMPANY

total sales, to the last quarter of 1945 when they were responsible for 18.5% of this product's sales. Included in this miscellaneous group are food stores, beauty shops, and house-to-house selling. Discovery of this trend led this particular manufacturer to place more emphasis on sales through these outlets in order to stop the downward trend in his own sales through this channel.

The combination of retail store audit and consumer panel data does not constitute, by any means, a complete guide to the proper selection of channels of distribution. In the first place, such data as these services provide is available only for products already in the market. The firm desiring to launch a new product different from any already on the market can profitably study data which these services provide for products of roughly similar characteristics, but cannot, of course, acquire data for a product never before sold. Both of these marketing research services maintain test panels which a manufacturer can use in order to acquire pertinent data concerning the marketing of his product, but these are available only to firms who are already subscribers to the continuing services of the research firms. Secondly, it may be argued that these services provide subscribers only with knowledge of what is, not of what should and could be. As pointed out previously, it may be that present distribution of the product is restricted because of the way the product is channeled to consumers. In that case, the channel of distribution should not continue to be adopted solely to the requirements of the present consumer group. Furthermore, the channel of distribution for a product cannot be chosen independently of other policy considerations. The channel must "fit" with policy decisions on product development, constitution of a line of products, promotion, and so forth. To some extent, as will be

explained later, these data are of aid in fitting the various pieces of a general marketing policy together. They are, however, only an aid to judgment, not a substitute for it.

Production Control

We have already discussed the problems of determining market potentials and sales potentials and establishing sales quotas and the ways in which Nielsen and Industrial Surveys data are of aid in this task. Sales potentials, properly set, indicate the quantity of a product which a seller expects to dispose of during a certain period, and thereby help to determine the quantity of goods which he will produce. Sales potentials and sales quotas, however, set for relatively long periods, are not a sufficient guide for day-by-day, week-by-week, production scheduling. In fact, even the best sales potential figures are but an objective which a seller strives to obtain. Production schedules should be based upon information firmly rooted in reality. In other words, production should be closely correlated to actual consumer sales. It is especially of importance that production and sale of perishable and semi-perishable goods be kept in line. Too large inventories of such products, either in the hands of the manufacturer or wholesalers and retailers, may lead to substantial losses if the product becomes unsalable. In fact, it is imperative that such products reach ultimate consumers in the best possible condition if a manufacturer's competitive position is to be maintained. If retailers should be "out-of-stock," potential sales will naturally be lost.

Factory sales figures, readily available to a manufacturer, are an unreliable indicator of the amount of a product consumers are purchasing. Factory sales may, for example, have shown an upward trend for

recent months, but this apparent increase in sales may be accounted for partially, if not entirely, by an increase in inventories held by wholesalers and retailers. Similarly, a decline in factory sales may be due to a reduction in inventories of middlemen rather than to a decrease in consumer purchases. To avoid this problem, consumer sales figures are necessary. If all of a manufacturer's product goes to the consumer market, the difference between consumer purchases and factory sales would be equal to the change in inventories held by middlemen.

An interesting illustration of how retail store audit data is used for the purpose of controlling production schedules and trade inventories is afforded by a General Mills study on the correlation of cereal shipments with consumer sales.[1] It was discovered from factory sales records that a large volume of shipments was being made during the months of June through September. Nielsen data, and also Industrial Surveys data, revealed that this was also the peak season of consumer sales. This appears, on the surface, to be good correlation between factory shipments and consumer sales. However, when the time taken for a product to move from producer to consumer is taken into account, and the magnitude of factory shipments during this period is noted, it becomes apparent that inventories in trade channels are going to be higher than necessary during the winter months when consumer sales are low. In terms of days supply at the consumer rate of withdrawal, trade inventories were approximately twice as high during the winter months as they were on June 1, at the start of the heavy buying months. Nielsen figures revealed the size of retail inventories. The remaining difference

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[1]Information for the following illustration comes from a paper delivered at the Institute of Marketing, University of Minnesota, Oct. 10, 1949, by John S. Monroe, Sales Analyst of General Mills, and from a personal interview with Mr. Monroe.

(institutional sales were a minor factor) between shipments and consumer purchases was approximately equal to the change in wholesale inventories. Knowing the pattern of consumer purchases of this cereal product as revealed by Nielsen and Industrial Surveys data, and knowing what retail inventories were, it was simple to determine the amount of the product which should be shipped to wholesalers during each period in order to keep inventories at a constant number-of-days supply. The result of this was a new pattern of production and shipment very different from the old. It was also necessary for the sales department to work out a method of controlling wholesale inventories if this scheme was to work. This was accomplished by assigning a quota to each wholesaler. Salesmen were not allowed to sell the wholesaler more than enough to keep his stock at the prescribed level.

The results of this plan have been of major importance to General Mills. First, it allowed them to deliver to the consumer a better product because it was fresher and more appetizing. Second, it cut down materially on expenditures for picking up "out-of-condition" merchandise, a decrease running into six figures for the first two years after the plan was inaugurated. Third, it permitted the Company to develop a stable pattern of production in its cereal plants, cutting out the peaks and valleys of previous years. Fourth, because the plan permitted scheduling of production in accordance with demand for the product, General Mills was able to decrease the amount of storage space required to service a certain volume of sales.

Pricing

If our economy operated in a manner such as that envisaged by the framers of the doctrine of perfect competition, there would be no such thing as pricing problems and no necessity for the existence of

a pricing policy. The price obtainable for a product would be determined entirely by market forces outside of the control of the individual seller. He could sell any quantity desired at the market price, but he would be completely unable to charge more. He would not be operating rationally if he elected to charge less than the prevailing market price because he would be accepting less for his product than the market was willing to offer. Fortunately or unfortunately, depending upon the point of view, our economy is not one characterized by the existence of perfect competition. Rather, we operate under what has variously been called "imperfect" or "monopolistic" competition. Although precise definitions of these terms would indicate some differences between them, they are commonly employed as if synonymous. Under such a system, sellers' products are differentiated, sellers are of finite number and varying size, knowledge of the market is imperfect, and so on. Under such a system, pricing problems are universally encountered.

The pricing problems which a seller faces under a system of imperfect competition may be divided, in a general way, into two categories. First, there exist problems of price determination. These are difficulties involved in initially establishing and subsequently revising the price level at which a product is to sell. Second, there are problems of price administration. These are problems concerned with establishing and administering minor variations from the general price which has been decided upon.[1] These variations include such things as discounts, deferred payments, dealer margins, etc. Although problems of both price determination and administration are complex and, in addi-

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[1]For an extensive discussion of price determination and administration see D. M. Phelps, Sales Management: Policies & Procedures (Chicago: Richard D. Irwin, Inc., 1951), Chaps. X and XI.

tion, closely intertwined with many other phases of the over-all marketing effort, both the retail store audit and consumer panel methods of marketing research provide some information which is of aid to business executives charged with responsibility for pricing. They provide information concerning many of the factors which influence pricing decisions.

There are many factors which influence the task of price determination. Among these factors are two which are of major importance to the seller because they are most likely to give rise to problems concerning the price determination task. These factors are the nature of the market for the product and the influence and extent of competition.[1] Both Nielsen and Industrial Surveys data provide extensive information on these two points. There are other factors which influence the process of price determination, such as cost considerations, the existence of customary prices, and the desire to obtain a satisfactory return. These marketing research services are of little direct help with regard to these latter considerations.

Data furnished by the A. C. Nielsen Company relate to operations at the retail store level. They are not revealing, except by inference, of the nature of the ultimate consumer market. Industrial Surveys Company

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[1] Malcolm P. McNair and Harry L. Hansen, Problems in Marketing (New York: McGraw-Hill, 1949), p. 563. These authors state this as follows: "Basic to any pricing decision is an appraisal of consumer demand. Once the buyer has been recognized and classified and his buying habits and motives studied, some rough tentative appraisal of market size, useful in providing guesses as to probable sales volume and important later in estimating costs and profit possibilities, can be made. Demand, however, is commonly difficult to appraise, particularly for new products, but also for existing products or possible modifications of them. Buyers may be inarticulate as to their needs or unpredictable concerning their future requirements. Unanticipated changes in consumer incomes may influence their buying patterns. The responsiveness of consumers to a new or modified product is difficult to anticipate, and the hold of competitors on consumer demand not easily assessed."

data, on the other hand, pertain directly to the ultimate consumer market. For a product of a type already being purchased by ultimate consumers, they can give the following facts about demand:

1. Who buys this type of product. (Buyers classified by income, sex, age, location, etc.)
2. How much of the product is purchased.
3. How much of the product is purchased at each price at which it is offered.
4. How past sales have been affected by changes in purchasers' incomes, price changes, etc.

Having this information about the market for a product, the seller is enabled to "fit" his price to the market. He can tailor his price to low-income or high-income consumers. He can set a price which reflects the elasticity of demand which exists for this class of goods. He can adjust price to keep in step with changes in consumer purchasing power if the data shows that this influences the price he can obtain. Of course, it must here be recognized again that these data only reveal the existing and past interrelationships between price and market factors. They do not give certain answers concerning the effectiveness of potential pricing practices which have not yet been used.

A second factor exerting great influence upon the determination of prices is the competition which a seller must face in the marketing of his product. It is essential that the seller of any product be cognizant of the price policies followed by competitors in order to intelligently establish prices on his products. The potential success of any price he might adopt is dependent upon the pricing policies followed by others. The price upon a seller's product must be such that, when account is taken of quality differences between his product and competing ones on the market, it is considered as a good value by consumers. Both Nielsen data and Industrial Surveys data provide substantial information about competitors'

prices and the success they are having with those prices. Both services reveal the prices at which competing products are being sold, the sales volumes obtained at those prices, the market segment in which competitors' products are selling (this more true of Industrial Surveys data than Nielsen), price changes which competitors have made and the results of those price changes, and the existence of a multitude of other factors which condition the effect of price, such as special promotions, premium offers, etc.

It should not be assumed that a seller watches his competitor just so he can match his efforts. In many cases wisdom dictates that a seller not match a price move made by a competitor. Whether or not a seller should take retaliatory action depends upon the effect which the move of a competitor has had upon his own sales. Both Nielsen and Industrial Surveys data will reveal what this effect has been. For example, a manufacturer of a well-known brand of coffee had for years been following a policy of matching all price reductions made by the manufacturer of another well-known brand of coffee. Eventually this seller decided to find out what would happen to sales of his brand if he did not follow such a price move. When his competitor cut his price, this seller did not. To his great surprise, Nielsen data revealed that although this price-cutting competitor gained sales, his sales gain was almost entirely at the expense of other brands of coffee rather than his own. In the future, therefore, this coffee manufacturer did not meet all price cuts of this competitor.

Mere determination of the price at which a product is to be placed on the market does not constitute a complete price policy. The administration of that price involves the determination of dealer margins, price differentials for differing quantities, locations, distribution channels,

etc. Sound price administration depends upon the possession of knowledge concerning the market situation, the competitive situation, and the effect which certain price moves have previously had. For example, if a seller is considering the desirability of attempting to maintain a certain retail price he would want to know what the prevailing retail price for his product is. In fact, he would need such information if he were considering any one of a large number of moves. Figure 6 shows the information along these lines which he can acquire from either of these services. Having such knowledge, a manufacturer can set a retail price which will be high enough to satisfy most distributors and, at the same time, not so high as to be out of step with retailers' pricing practices, competitive prices, or the general demand situation. For instance, one coffee manufacturer, looking at such data, reduced his price of coffee four cents per pound so that the general retail price would be below eighty cents after dealers took their normal margins.

A manufacturer attempts to set and administer prices in such manner that his pricing policy will have a favorable effect upon consumer sales. His attempts to influence consumer sales of his product by price changes may in some cases be thwarted by wholesalers and retailers. Figure 7 illustrates a case in which a manufacturer made cuts in his factory price as shown. In this instance, wholesalers promptly made corresponding cuts, but retailers did not cut promptly or sufficiently. If retailers had maintained a constant profit margin, the consumer price would have followed the dotted line instead of the solid line; hence the difference between the two lines represents retailer profit which the manufacturer had not intended. As shown by the top line, retail gross margins actually rose from 22.4 per cent to 29.7 per cent.

RANGE OF INDEPENDENT STORE SELLING PRICES FOR ITEM "X"

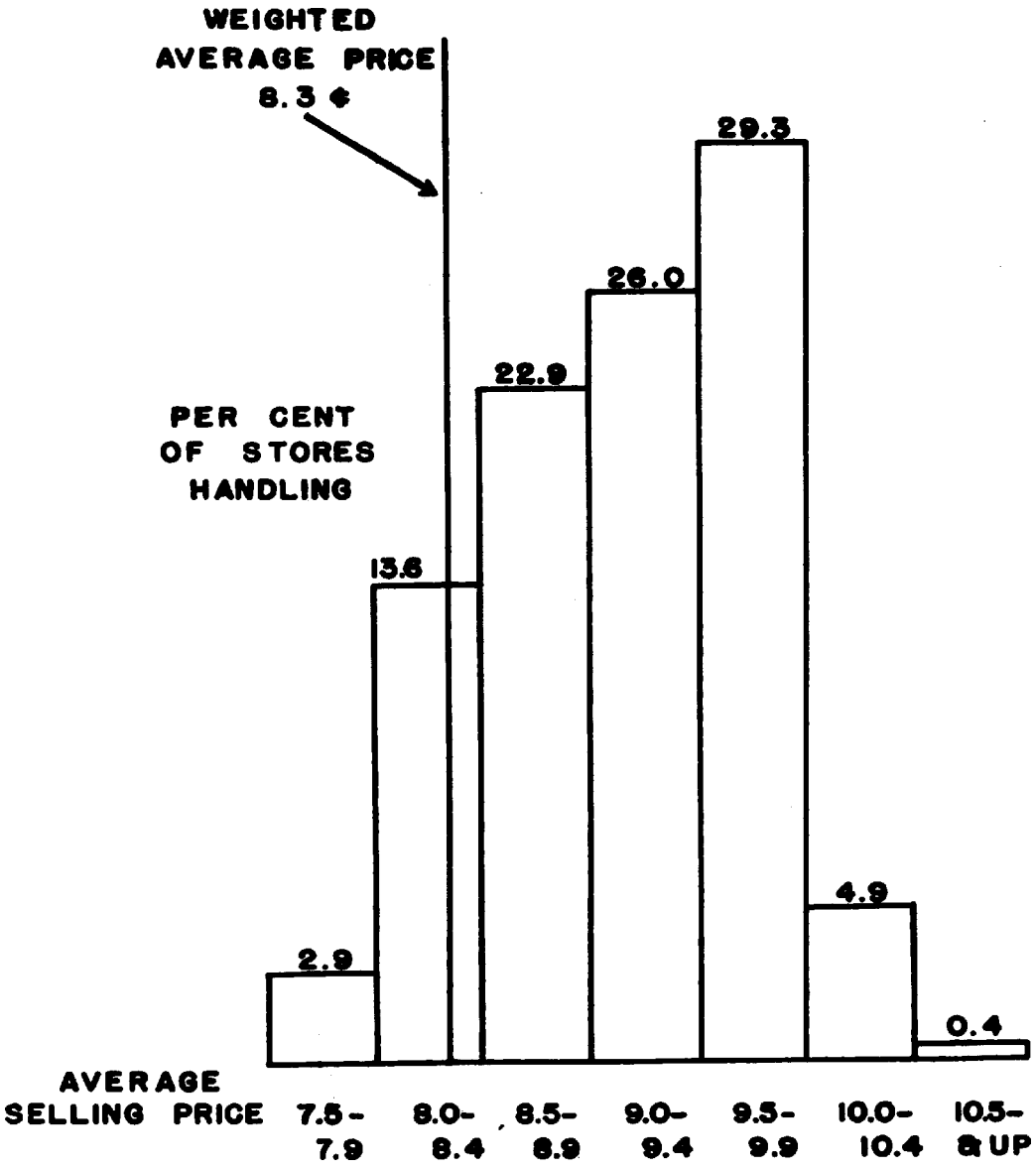


FIGURE 6

SOURCE: COURTESY A. C. NIELSEN COMPANY

FAILURE TO PROFIT FROM PRICE CUTS

A TYPICAL PACKAGED FOOD

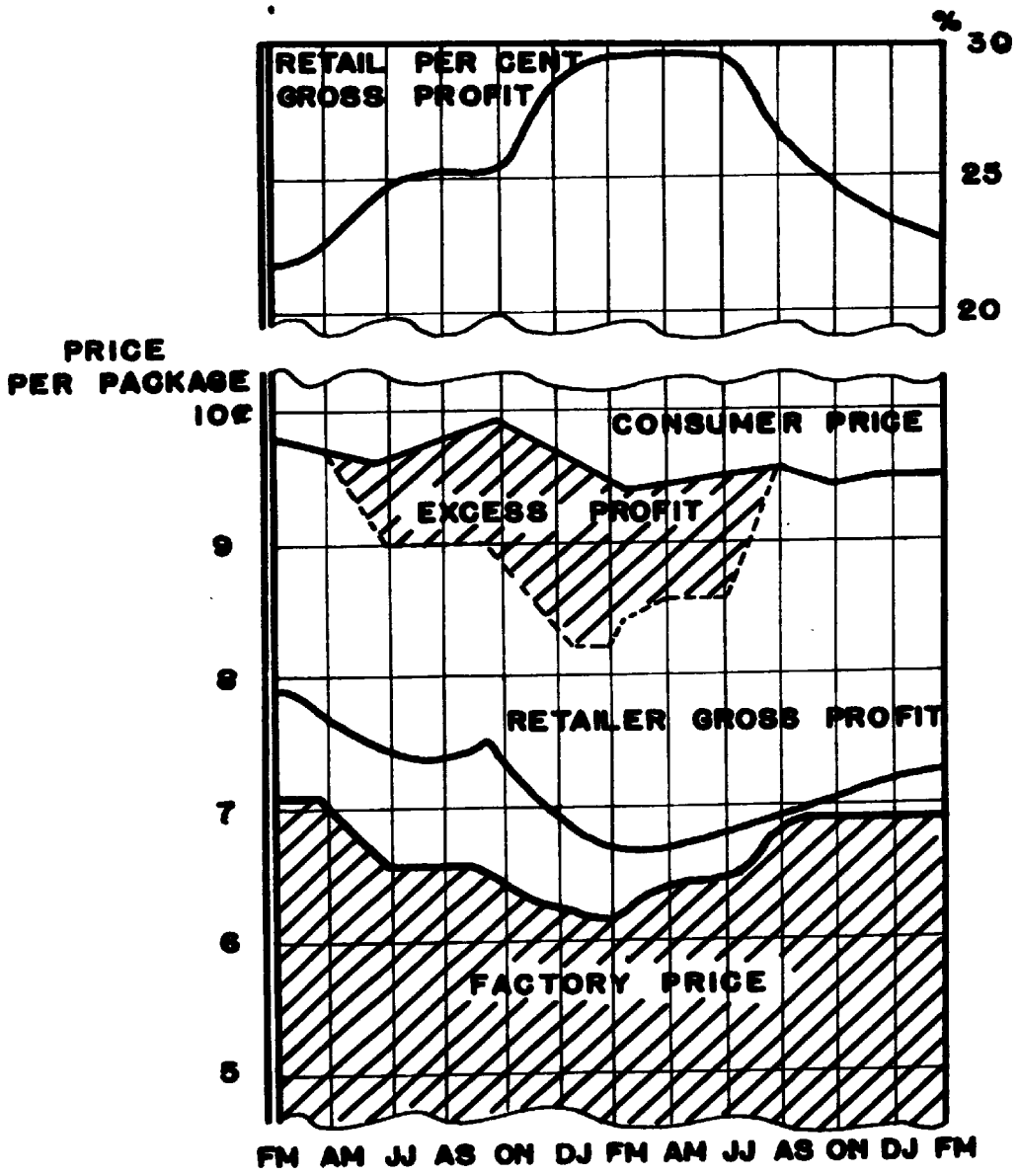


FIGURE 7

SOURCE: COURTESY A. C. NIELSON COMPANY

Certainly this manufacturer received very little gain from his price cut as far as consumer appeal is concerned. His only possible gain was in dealer good will due to larger gross margins. The record of consumer sales in this case shows clearly that there was no appreciable sales results from this improved good will. In fact, the loss on this operation equaled the manufacturer's normal profit on this item for two years.

A number of illustrations of the use of these data in pricing have been given here. Others exist. However, there is reason to believe that use of these data in the pricing field is not so widespread as would seem to be justified by the value of the data, nor is their use for these purposes as common as their use in the attainment of other business objectives. An executive of one marketing research firm not only agrees with this observation, but goes further. He mentioned that business in general seems largely disinterested in information in the pricing field. The major reasons for this lack of interest in information of value in pricing seems to be the following. First, a general lack of knowledge concerning the pricing information which these services provide. Second, the tardiness of the data. Nielsen reports are issued every 60 days, Industrial Surveys reports come out every 30 days. Business executives frequently expressed the opinion in interviews that such data are too old to be of much value in a dynamic market situation. Third, there seems to be a tendency to overemphasize the influence of competition and costs as price determinants. In some cases the products turned out by various producers are relatively homogeneous. Margarine is a good example. An executive of a company operating in this field stated that each seller had absolutely no choice but to meet the market price prevailing. They do not seem to consider it possible that research would

reveal this not to be the case. Consequently, no such research has been done. Prices are also commonly based on costs. In fact, "cost-plus" pricing is the most common method of price determination.[1] Of course, the cost of producing and marketing a product does not determine what the market will pay for that product. In spite of these prevailing practices, however, there seems to be evidence of an increasing awareness of the gains to be made by the adoption of sound pricing policies, and there will probably be growing use of Nielsen and Industrial Surveys data for pricing purposes.

Sales Promotion

It is in the general field of sales promotion that the data provided by A. C. Nielsen Company and Industrial Surveys Company are most commonly employed. Promotional activities for consumers' goods can, in a general way, be divided into those designed to "pull" the product through the channel of distribution and those whose objective is to "push" the product through the channel of distribution.[2] In the case of "pull" strategy, the major part of the promotional budget is likely to be expended upon advertising to ultimate consumers, with the objective of creating a sufficient demand among them for the product that they will buy it even if little sales effort is devoted to it by retailers. In the case of "push" strategy, the selling effort is aimed primarily at influencing wholesalers and retailers to merchandise aggressively a particular manufacturer's brand. Most sellers, of course, use a combination of these two strategies, with varying degrees of emphasis

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[1] Alfred R. Oxenfeldt, Industrial Pricing and Market Practices (New York: Prentice-Hall, Inc., 1951), p. 162.

[2] For a discussion of this basic contrast see Malcolm McNair and Harry Hansen, op. cit., p. 402.

placed upon one relative to the other. Which of these promotional strategies a manufacturer is using will determine whether retail store audit or consumer purchase panel data is more useful to him. Generally speaking, retail store audit data is more useful to a manufacturer "pushing" his product through the channel. It provides him with extensive information pertaining to the handling of his product at the retail level. On the other hand, if a manufacturer is employing the "pull" strategy, he will find consumer purchase panel data more informative. It provides him with many facts about his market which aid him in planning his promotional effort.

Extent of Dealer Cooperation

Whether a manufacturer is following either a "push" or a "pull" policy, he is interested in the cooperation he is securing from the retailers who handle his product. He is much more interested in the nature and extent of dealer cooperation, of course, if he is relying heavily upon such cooperation to further the sale of his product. It was mentioned above that Nielsen data was most useful to a manufacturer employing this promotional strategy. Just how does Nielsen data aid such a seller?

In the first place, these data will reveal the percentage of all stores carrying such goods which are "out-of-stock." The minimum of cooperation which a retailer can provide a manufacturer of a product is to carry that good on his shelves. Unless he does at least this, sales of a product of the "convenience" variety, such as most grocery items and most drug items, are bound to be low. Most consumers will accept another brand rather than make the additional effort of going elsewhere to acquire the product. Figure 8 reveals what is probably a rather typical situ-

WHAT CUSTOMERS DO WHEN STORE IS OUT OF STOCK

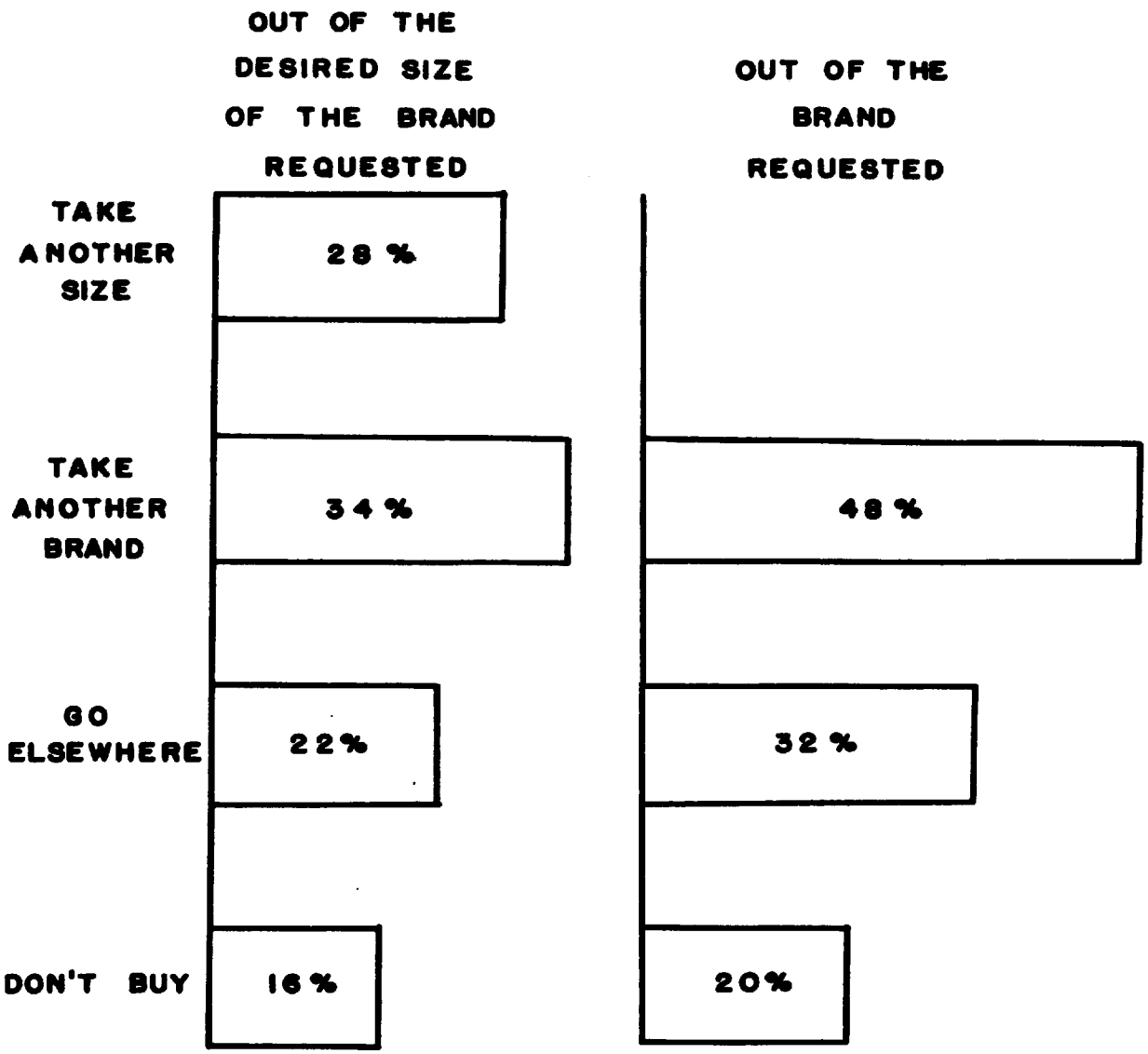


FIGURE 8

SOURCE: COURTESY A. C. NIELSEN COMPANY

ation. When the desired size is not available, the manufacturer suffers a sales loss in 50 per cent of the cases. When no size of the desired brand is available, sales are lost in 68 per cent of the cases.

An out-of-stock condition is only one evidence of an unsatisfactory inventory situation for a manufacturer's product. A dealer cannot effectively merchandise a product if his stocks, although existent, are inadequate for effective promotional purposes. For example, if he keeps on his shelves ten units of one manufacturer's product, and one hundred units of a competing brand, the brand which is present in greater quantity is certainly brought more strikingly to the consumer's attention. It is also possible for a retailer to be overstocked on a product. This may be equally undesirable for a manufacturer. It may mean, because of slow stock turn, that the product reaches consumers in a deteriorated condition. It may cause frequent markdowns on the manufacturer's product. This may affect the product's reputation. Furthermore, a manufacturer cannot expect effective cooperation of retailers in selling his product unless he adapts his policies to their inventory requirements. One manufacturer of breakfast cereals, for example, decided to allocate premiums to retailers for distribution to consumers on the basis of one-case purchases. That is, no premiums would accompany orders of less than one case. Investigation of Nielsen data revealed that if this policy were followed only one-sixth of the small independent retailers could take advantage of this premium offer. Even for this one-sixth, it would require an average of six months for them to move only one case of this product.[1] Therefore, it is obvious that the obtaining of effective cooperation of dealers probably cannot be obtained in the absence of knowledge of how

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[1] This information furnished by John S. Monroe, Sales Analyst, General Mills Corporation.

those dealers operate.

The Nielsen service provides a manufacturer with extensive information concerning what retailers are doing to further the sale of his particular brand. In the upper half of Figure 9 we see that Brand "A" is losing the promotional support of retailers. At the end of the year they are devoting less than half as much support to this brand as they were in the beginning of the year. The lower half of Figure 9 reveals that this situation is not the same for a major competing brand. Hence, Brand "A" is very likely to lose its competitive position.

The upper half of Figure 10 shows that a certain brand was declining in price to the consumer, whereas the price to the retailer had shown little change. Naturally, this resulted in a narrowing of the retailer's margin. In this case, his percentage margin was cut in half. The Nielsen service shows the manufacturer what effect this has had upon the cooperation he receives from retailers in merchandising his product. The lower half of Figure 10 reveals that his product is losing distribution, out-of-stock situations are increasing, and promotional effort by retailers is declining. By and large, this is information he would not have in the absence of these data.

Conversations with business executives who employ Nielsen data convince one quickly of the fact that this is one of the most common purposes for which such data are utilized. Every user of such data contacted by the author mentioned the importance to a manufacturer of watching the out-of-stock situation at the retail level, and most of them mentioned the desirability of possessing information with respect to retailers' other promotional efforts for a manufacturer's brand.

Allocating Promotional Effort: Determination of Buyers

The seller who promotes his products to ultimate consumers is

MEASURING DEALER COOPERATION

PERCENTAGES

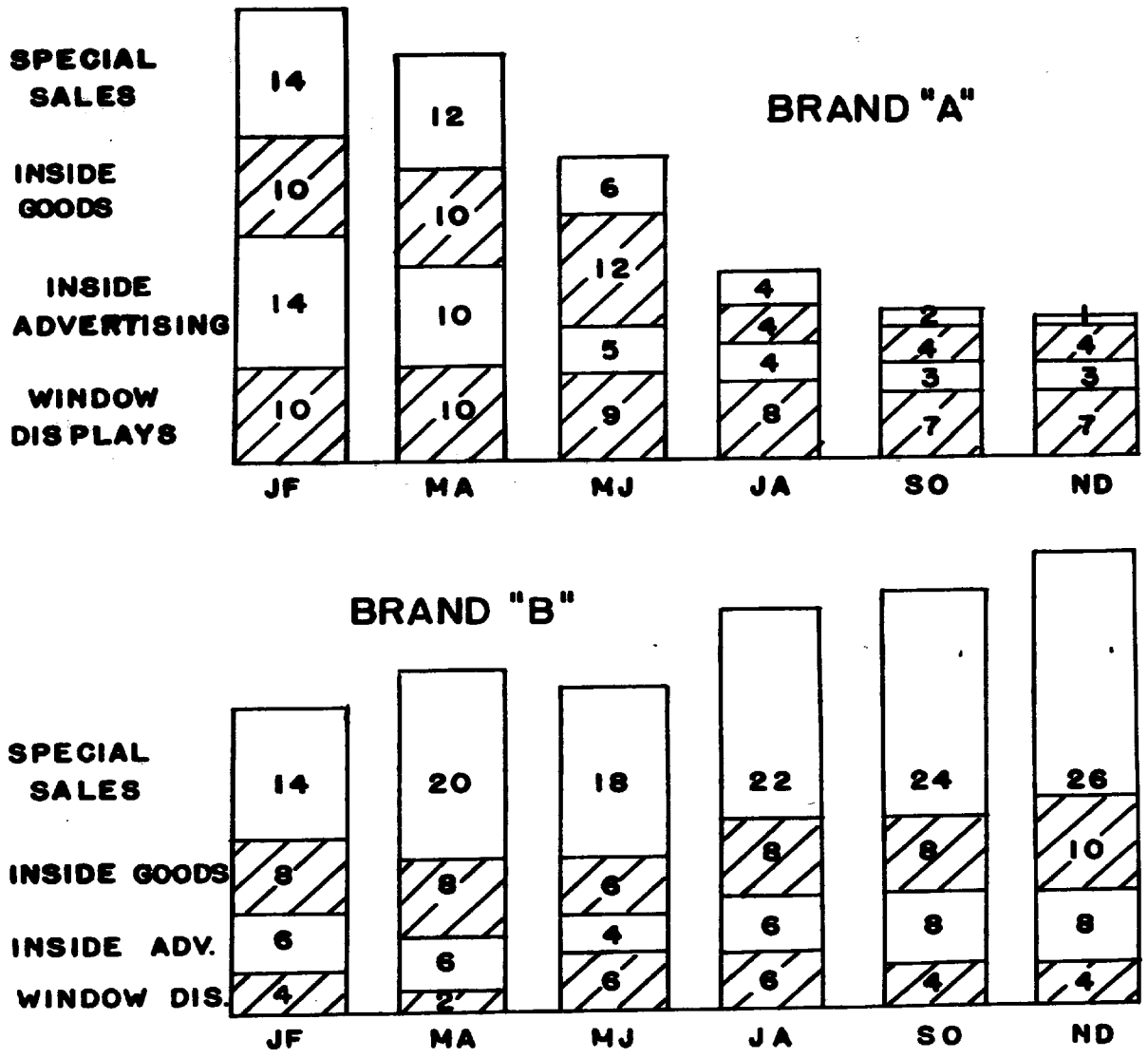
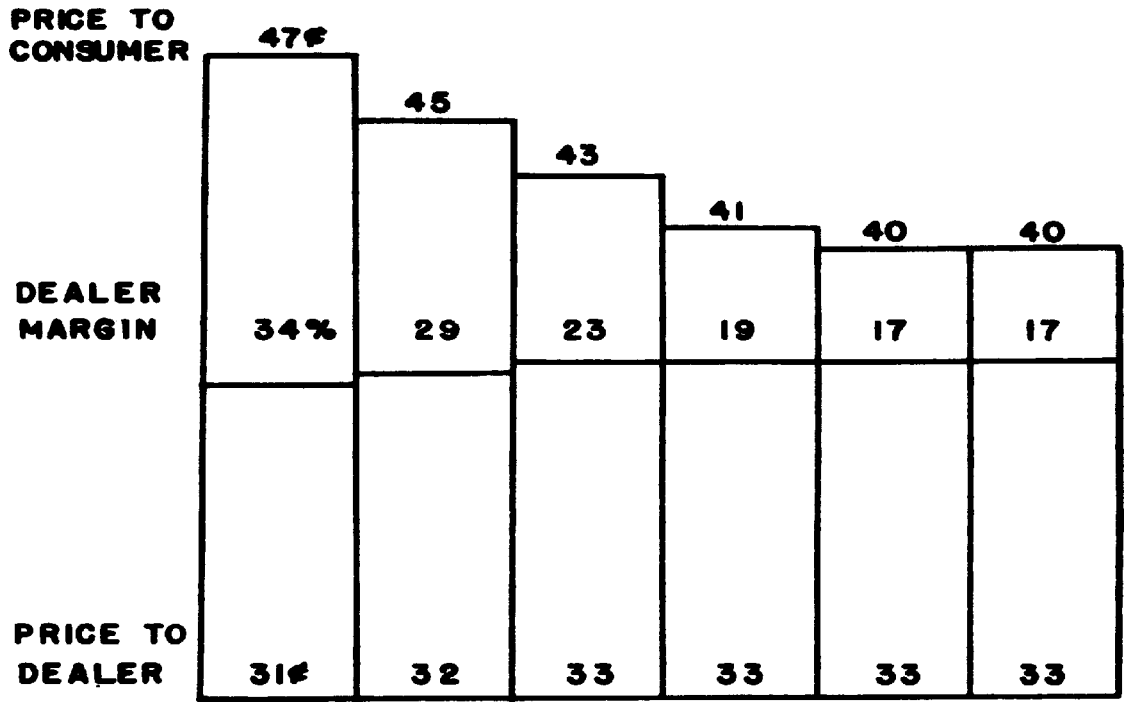


FIGURE 9

SOURCE: COURTESY A. C. NIELSEN COMPANY

LOSS OF DEALER COOPERATION



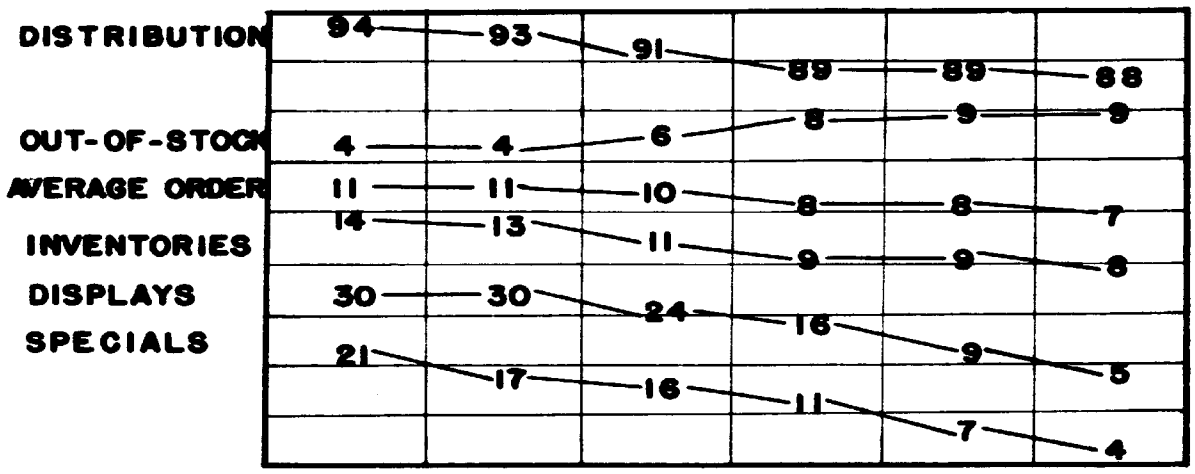


FIGURE 10

SOURCE: COURTESY A. C. NIELSEN COMPANY

concerned with so utilizing the promotional methods at his disposal that he will achieve the greatest gain at the least expense. Requisite to such an accomplishment is the allocation of promotional effort in accordance with the potential demand for a product. In areas and among groups where no potential demand exists for a product, promotional efforts cannot enhance sales. The effectiveness of promotion is likely to be roughly proportional to the relative potential demand for a product.

For the vast majority of products, potential demand varies by geographical areas and by consumer characteristics, such as income, age, sex, education, etc., within each area. It is axiomatic that for any given product classification all customers are not equal. It should be equally axiomatic that promotional effort should not be directed equally at all buyers, but should be channeled primarily to those buyers who are most important from the standpoint of sales.

To the extent that potential demand is indicated by current and past purchases, consumer purchase panel data reveal to a seller the buyers whom he should cultivate. As was clearly seen in Figure 3 earlier in this chapter, these data clearly separate the heavy buyers from the light. Figure 10 illustrates the extent to which these heavy buyers are identified. The seller not only knows where they live, but also knows their income class, their education, their occupations, their age group, and their family status. Such an analysis of the potential consumers of a product provides opportunity for a critical evaluation of market opportunities. It indicates the areas within which a seller's efforts are most likely to meet with success.

Allocating Promotional Effort: Timing Promotion

Factory sales figures are an inadequate indicator of current consumer sales. Factory sales and consumer sales often are not closely

PROFILE OF HEAVY vs. LIGHT BUYING FAMILIES OF A PACKAGED FOOD PRODUCT

(FAMILIES PER 1000 IN SUBGROUP)

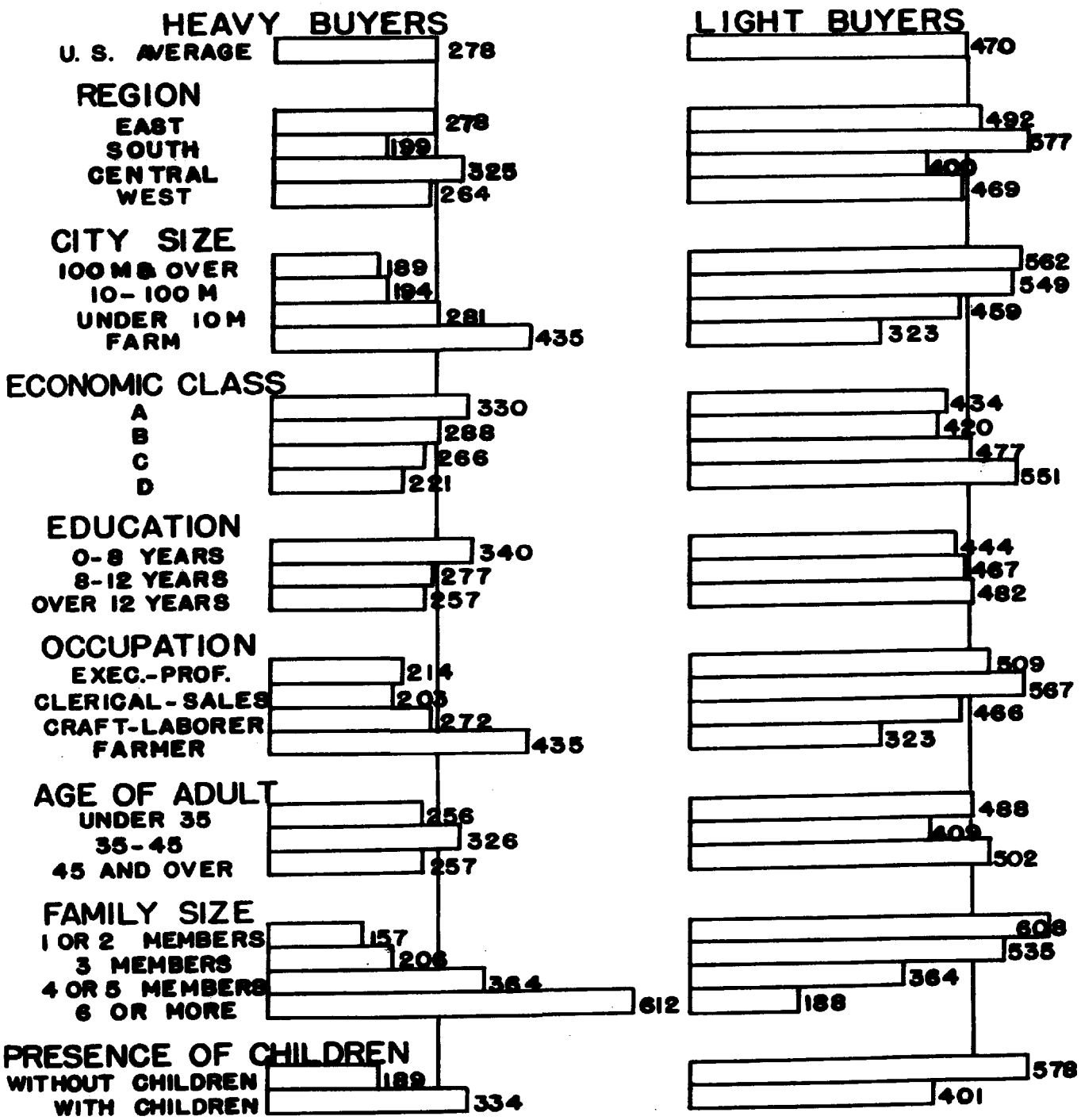


FIGURE 11

SOURCE: COURTESY INDUSTRIAL SURVEYS COMPANY

correlated because of fluctuations in chain, wholesale, and retail inventories. At the same time, it is important that a manufacturer be aware of fluctuations in the consumer sales of his product if he is to time his promotional efforts effectively. Potential demand for a product varies through time as well as by area and by people. Figure 12 illustrates a case where advertising effort was not being used so as to conform with fluctuations in consumer sales. The advertising effort was being exerted too late in the season to catch the peak of consumer demand. In this case, wholesalers and retailers largely liquidated their inventories in May and June and restocked in July and August. Factory sales, therefore, seemed to indicate that peak demand was in late summer. Following disclosure of the true facts by Nielsen data, the manufacturer concerned redistributed his advertising to conform with variations in consumer sales of his product.

Although retail store audit data of the type provided by the A. C. Nielsen Company is useful for this purpose, it is not as satisfactory as consumer panel data. Retail store audit data is offered on a bimonthly basis. This is satisfactory for the detection of long-term trends, but does not accurately reveal sharp fluctuations in consumer buying and, hence, does not permit determination of the exact shape of the consumer sales curve. Consumer participants in the panel maintained by Industrial Surveys Company report weekly, thus permitting the manufacturer to more accurately ascertain when his sales peak is reached, when the upward swing in sales begins, etc.[1] Another advantage of con-

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[1] For a more complete discussion of the relative merits of these two types of data for this purpose see Alfred R. Root and Alfred C. Welch, "The Continuing Consumer Study: A Basic Method For the Engineering of Advertising," The Journal of Marketing, Vol. VII, No. 1 (July, 1942), p. 17 ff.

ADVERTISING EFFORT IN RELATION TO CONSUMER SALES

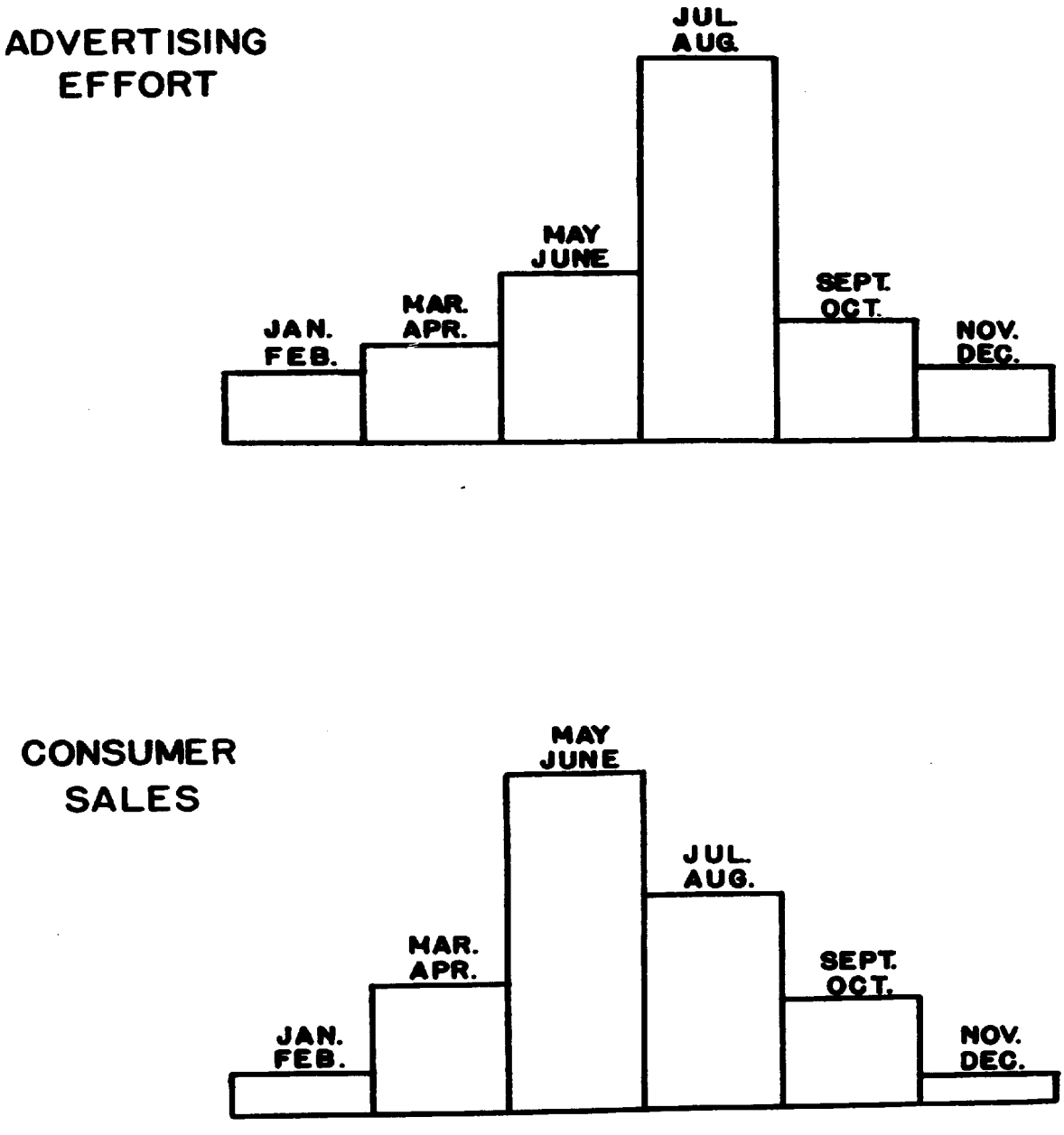


FIGURE 12

SOURCE: COURTESY A. C. NIELSEN COMPANY

sumer purchase panel data for this purpose is that they reveal which consumers are responsible for these sales fluctuations, thus indicating to the manufacturer which part of his promotional effort should conform to fluctuations in his total consumer sales and which part should not.

Allocating Promotional Effort: Selection of Media

For any product for which total sales can reasonably be used as a measure of potential demand, the consumer purchase panel, but not the retail store audit, is a very helpful aid in the selection of promotional media. Media may be evaluated and selected on the basis of the efficiency with which they reach the heavy buyers of any given classification of consumers' goods. Industrial Surveys Company began the collection of data on media through its National Consumer Panel in October, 1941. Since that date daily records have been maintained by all panel member families as to the publication name, issue date, and method of receipt of all magazines coming into the home. Since then, collection of data on radio listening and newspapers entering the home have been added. Knowing where the market for a product is, and knowing also the media which reach that market, it is possible to select a combination of media which will provide coverage of the market with a minimum of waste coverage and duplication. Of course, one cannot tell from these data what percentage of magazine and newspaper advertising entering the home is actually read, but this situation does permit the channeling of "opportunity for exposure."

The effectiveness of advertising effort is conditioned not only by the extent to which media employed cover the potential market for a product, but also by the number of times each purchasing unit in that market is exposed and by the ability of these exposures to produce sales. The following case illustrates the use of consumer panel data in selecting

media which conform to these requirements.[1] Two brands of a particular drug product relied exclusively on magazine advertising in promoting their goods. Brand B spent about 40 per cent less than Brand A for this purpose during a particular six-month period, but succeeded in reaching only 22.5 per cent fewer families. Thus, Brand B would appear to be doing a better job of reaching people with money they are spending. However, consumer purchase panel data also reveals the number of exposures per family for the advertising of these two brands. The per-family average of Brand A was revealed to be almost twice that of Brand B. Brand B reached the average family 5.5 times during this six-month period, while Brand A's average was 9.5. Weighting the number of families exposed by the number of times they were exposed, Brand A received 11,994 exposures, while Brand B got 6,008, or 51 per cent of Brand A's total. As a final step, "family exposures" among the families who were exposed to the brand's advertising and purchased the product during this period, Brand B received only 23 per cent of Brand A's return. Cost per exposure among families who purchased was .304 cents for Brand A, in contrast to .787 cents for Brand B. Such information, revealed by consumer purchase panel data, permits a manufacturer to so choose his media that he gets the greatest possible return per dollar spent on advertising.

Sales Promotion: Measuring Its Effectiveness

The media employed in channeling a sales message to ultimate consumers is only one element of the over-all promotional structure. Not only are there other factors determining the effectiveness of

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[1]This case illustration is reported fully in Harold H. Webber, "The Consumer Panel: A Method of Media Evaluation," The Journal of Marketing, Vol. IX, No. 2, (October, 1944), pp. 137-140.

magazine advertising, but there are also other promotional methods which can be used, such as free deals, missionary work, etc. The selection and proper execution of promotional methods is dependent, in all cases, upon ability to measure the effectiveness of methods employed. Both the retail store audit and the consumer purchase panel are helpful in this respect, although neither provides all the information it would be desirable to have.

The first requisite to a determination of the effectiveness of promotional effort is a knowledge of consumer sales. Factory sales are an unreliable guide for this purpose. Let us take an actual case illustration. A certain manufacturer of consumers' goods changed his promotional strategy. Following the change (see Figure 13), made after the second period, factory sales declined 19 per cent. If consumer sales figures had not been available, it would probably have been concluded that the change was a mistake. However, as shown by the center section of Figure 13, retail inventories of this brand had declined 15 per cent. The total consumer market for all brands combined had fallen 12 per cent, due to seasonal or other factors, with the result that sales of Brand "A", when measured at the point of consumption and when expressed as a percentage of total sales of this type of product, had actually increased from 35 per cent of the total market to 43 per cent, a competitive gain of 23 per cent over the brand's previous position. If one is interested in judging the effectiveness of a competitor's promotion, consumer sales figures are even more essential, because even factory sales are not available as an indicator.

Both Nielsen and Industrial Surveys data provide consumer sales figures, the basic requisite to a determination of the effectiveness of promotional effort. Both provide continuous reports, so that it is

A CHANGE IN ADVERTISING

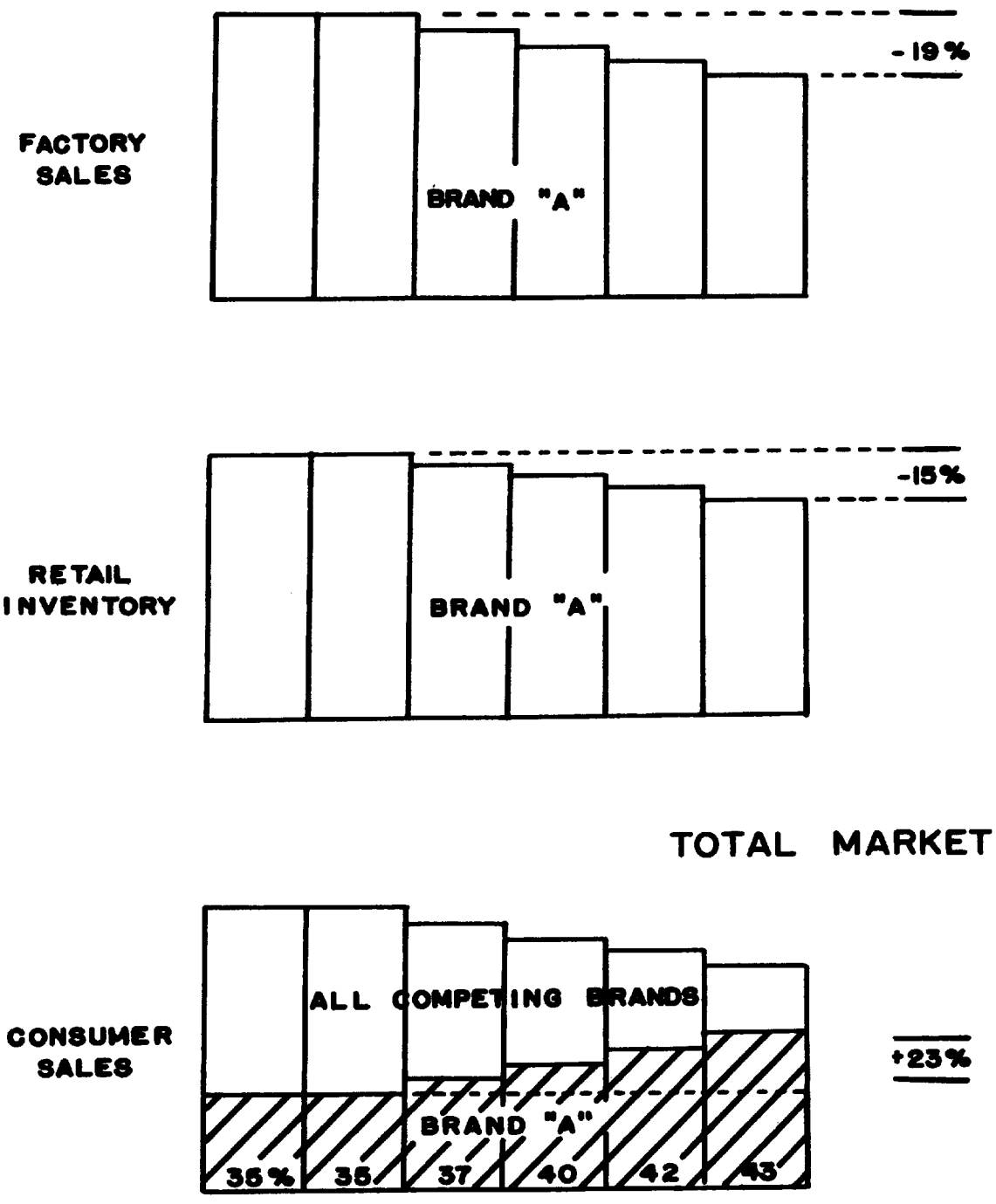


FIGURE 13

SOURCE: COURTESY A. C. NIELSEN COMPANY

possible to get long-run and trend results. Both provide information on competitor's promotional activities and brand positions. A better measure of the effectiveness of certain promotional effort can be obtained, however, when one has volume of purchase data for individual families as well as knowledge of the promotional expenditure directed against the individual family. In the absence of this information, it is not possible to determine why certain promotion has been effective or where it has been effective. Of these two types of data, only consumer purchase panel data provides this information. On the other hand, the effectiveness of promotion directed at retailers is only revealed by the retail store audit. Both services, therefore, are necessary to determine the effectiveness of all types of promotional effort.

Unfortunately, it is possible only in rare instances to measure the results derived from individual elements of existing promotional effort. This can be done in those few instances where it is possible to hold constant all elements but one. This is not, however, a typical situation. Samuel G. Barton, President of Industrial Surveys Company, estimates that samples in excess of 1,000,000 families would be required for this purpose.[1] Such samples are, of course, not economically feasible.

Long-Run Marketing Policy

It is difficult to draw a clear distinction between short-run and long-run policy, or between over-all and specific policy. In each case, the one is a part of the other and has a direct effect upon the other. In some respects, however, certain information contributes more to the formulation of plans for the long-run than the short-run; some

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[1] Samuel G. Barton, Developments of Technique on Consumer Panel Research (Industrial Surveys Company), p. 15.

knowledge is more helpful in providing cohesion and direction to general policy than it is in solving specific marketing problems. Of such nature is the information provided by the retail store audit and consumer panel methods which is discussed in this section.

Long-run marketing policy must reflect the primary demand trend for the product classification within which a particular good falls. If the long-run primary demand for a product type is downward, pricing and promotion policies must reflect this fact. Price in such a situation is likely to become of considerably greater importance as a sales determinant, and non-price competitive elements, such as advertising and product distinctiveness, tend to assume a lesser role. In contrast, if primary demand for a product is expanding, less emphasis on price competition and more emphasis on other promotional activities may be called for. A knowledge of the primary demand trend for a product requires information concerning total sales of a product classification. In some instances total sales figures are obtainable from government sources, trade associations, etc. In many instances they can be obtained only by such continuous research techniques as the retail store audit and the consumer panel.

The manufacturer and marketer of goods faces competition not only from other types of products which vie with his for the consumer's dollar, but also the much more direct competition provided by other products similar to his own. As a matter of fact, his interest in consumer sales figures probably springs primarily from a desire to know how he is faring relative to his direct competitors, and is only remotely prompted by a concern over the primary demand trend. Both the retail store audit and consumer purchase panel provide data concerning the total sales of a product type and the share of the market

held by each brand within a given product classification. Thus a seller knows whether a change in his own sales is the result of a change in the primary demand for a product or results from a change in the competitive positions of the several sellers of that particular product. It is important that he know which of these situations prevails. The one calls for different remedial steps than the other.

A decline in the demand for all brands within a product classification might suggest that ultimate withdrawal of a product from the market is inevitable. It might suggest that cooperative advertising by the various producers in an industry should be used, that new and radically different products to serve the same need should be developed, or, as suggested above, that promotional emphasis should be shifted more to price. A decline in the percentage share of the total market held by a particular brand may suggest entirely different remedial steps. For one thing, it indicates that the seller whose brand is declining in market acceptance could possibly learn something by watching his competitors. It certainly does not suggest cooperative advertising action or the necessity to develop a radically different type of product.

The percentage share of the total market accounted for by a particular brand is not necessarily indicative of that brand's chances of continued success in the market. A large share of the consumer market may be the result of a large number of single purchases by parties who buy only once. Long-run success is more likely to result when a measure of brand loyalty can be achieved. This situation is well illustrated in Figure 14, which gives a bird's eye view of the case history of a drug product. It was a minor brand in the field and was making unsatisfactory progress. Rather than improving its position, it was experiencing a gradually declining share of the market. An analysis

BRAND LOYALTY

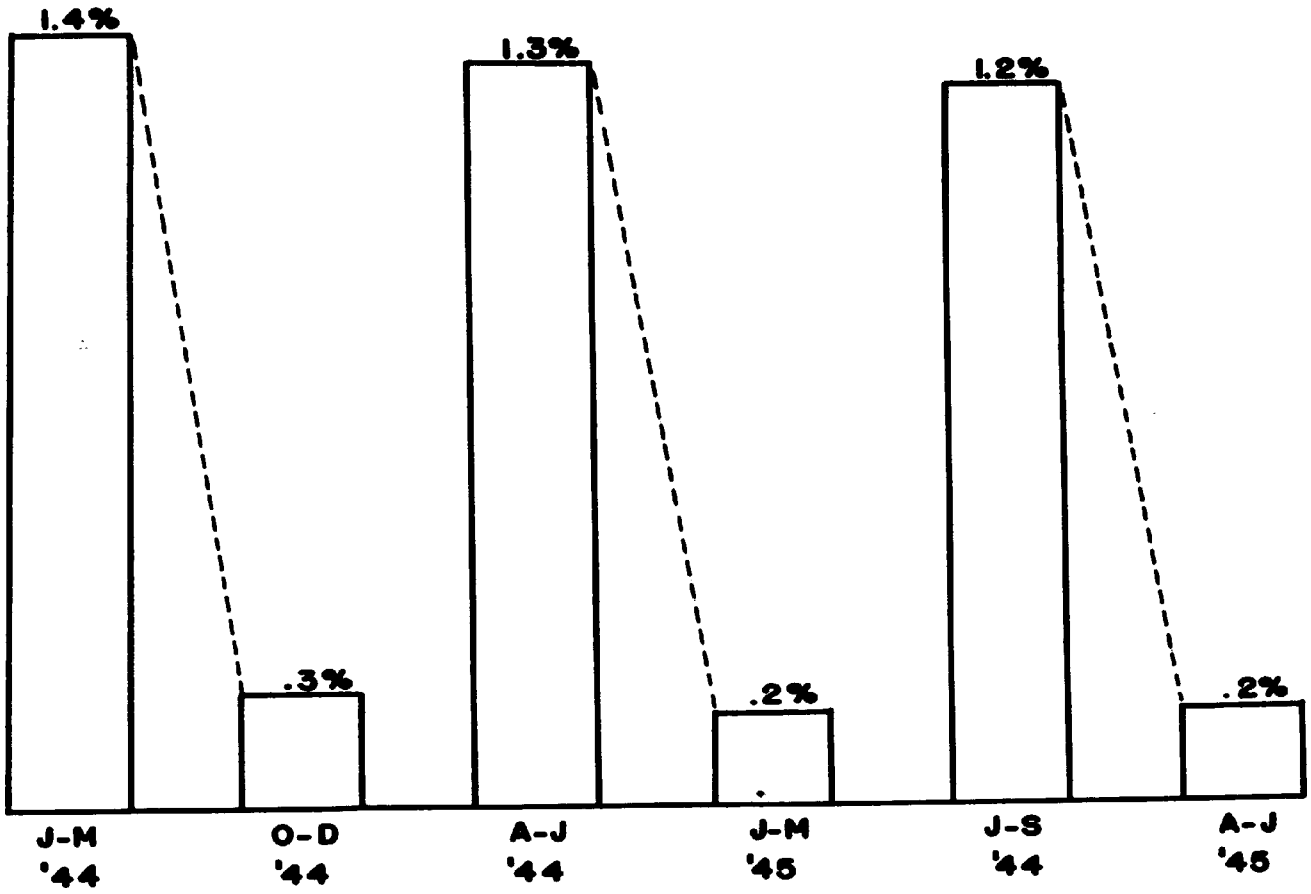


FIGURE 14

SOURCE: COURTESY INDUSTRIAL SURVEYS COMPANY

of repeat buying among members of the consumer purchase panel indicated a very low brand loyalty. It can be noticed that during the January-March quarter of 1944 the product was purchased by 1.4 per cent of the families. During the October-December quarter of that year only 20 per cent of these families were continuing to buy it. In subsequent periods a decreasing number of families were buying the product with no improvement in brand loyalty. As a result of this knowledge, the product was withdrawn in order to prevent further advertising and promotion loss.

The consumer purchase panel maintained by Industrial Surveys Company permits the ready determination of brand loyalty. The A. C. Nielsen Company does not allow such a calculation. Brand loyalty can only be determined when the individual consumer can be identified. The consumer purchase panel "places a yardstick, in effect, upon the movement of customers from one brand to another, and the portion of customers who are retained by a brand for a period of time."[1]

Other Uses

A listing of the present and potential uses by business of retail store audit and consumer purchase panel data could be extended to almost infinite length. There are few, if any, decisions to be made in the field of marketing which could not be more intelligently arrived at in the presence of extensive knowledge concerning retail operations and the situation prevailing in the ultimate consumer market. All of these possible business uses of such data cannot be discussed here. The more common uses of these data at the present time have been covered. A few other possible uses will be briefly indicated.

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[1]Stanley Womer, "Some Applications of the Continuous Consumer Panel," The Journal of Marketing, Vol. IX, No. 2 (October, 1944), p. 134.

In attempting to develop a product which is well adapted to consumer wants, both the retail store audit and consumer purchase panel methods are of some aid. Both reveal consumer sales by package size, price line, etc. Figure 15 shows a simple but important use of Industrial Surveys data for this purpose. Nielsen data could show the same thing. In this case we have a household product in which sales were concentrated in the larger size packages with 56 per cent of the total market being in the 64-ounce size, 26 per cent in the 32-ounce size, and only 18 per cent in a 16-ounce size. Of a particular manufacturer's brand, however, only 39 per cent was offered in the large size, while 40 per cent was in the smallest size. As a result of this information, production on the smaller sizes was decreased and production on the larger sizes increased. At the same time, sales and promotional effort was shifted from small to large size packages.

Each of these types of data is of value in the process of budget control. As pointed out above in the discussion of its use in determining sales potentials and setting sales quotas, they provide information of great value in establishing the goals for which a business firm should strive. Consequently, they aid in the allocation and control of funds.

Summary

The uses of retail store audit and consumer purchase panel data are many and varied. Because they provide information concerning consumer sales, location of markets, make-up of markets, and so on, they are of great value in the determination of market potentials, sales potentials, and sales quotas. They aid a seller in the selection of distribution channels. They provide a useful base for production control.

PRODUCT PACKAGING

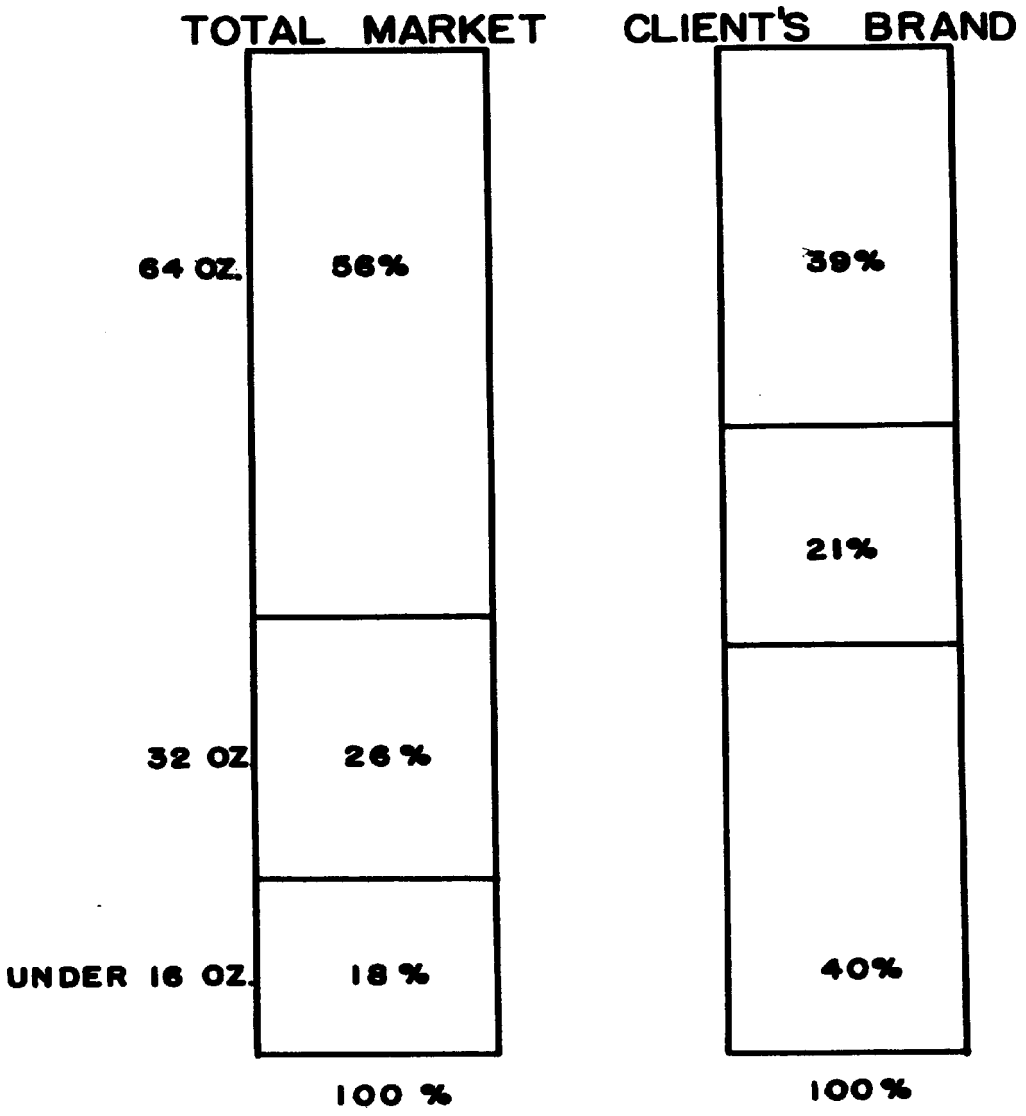


FIGURE 15

SOURCE: COURTESY INDUSTRIAL SURVEYS COMPANY

They facilitate both the determination and administration of prices.

These data are very useful in the formulation, allocation, and timing of promotional effort. Retail store audit data are particularly valuable when a "push" type of promotional policy is employed. The consumer purchase panel is most valuable to the seller relying upon a "pull" promotional strategy.

The formulation and execution of long-run marketing policies is facilitated by the existence of data of this type. Both types of data reveal basic trends in the sale of particular products and classes of product and aid in the determination of the underlying reasons for these trends.

CHAPTER IV

EFFECTS UPON SUBSCRIBING FIRMS

Until now we have been primarily occupied with the compilation of the essential background information from which the important effects of marketing research can be derived. Of necessity, this material has been largely descriptive in nature. The development of marketing research has been carefully traced out. It was shown that, in a sense, the retail store audit and consumer purchase panel are "terminal" marketing research methods. That is, they are methods which have evolved gradually throughout the developmental period of marketing research and are more useful and more reliable than methods which preceded them. For this reason, they are being employed as the "base" or "background" for our analysis of the economic effects of marketing research.

The most important objective of this dissertation remains to be accomplished. The economic effects resulting from use of these data must be isolated and analyzed. That is the purpose of the chapters which follow. The present chapter is concerned with those effects which pertain primarily to the individual firms subscribing to these services. That is, the effect of use of these data upon their operations will be considered. The following chapter deals with the effects of the use of these data upon the functioning of the economy as a whole. To some extent, this is an unrealistic division. It is often not possible to clearly separate the effects of these data along these lines. Also, effects upon the individual firm often determine effects upon

the economy as a whole, and the separation of discussion into two chapters is somewhat awkward. Nevertheless, this division limits chaos to some degree.

Many of the effects of the use of these data, discussed in the pages which follow, are not peculiar to the two marketing research methods with which this dissertation is concerned. Other methods of marketing research would produce the same effects. For the sake of simplicity, no attempt is made to indicate all the means by which these effects might be gained. Our discussion is assumed always to pertain to the retail store audit and consumer purchase panel. Again it should be noted that these effects cannot be quantitatively measured. Some of them are tangible, some intangible. In most instances, knowledge provided by these services is but one part of the total knowledge on which business decisions are based.

The Function of Marketing Research

Marketing research is a tool of business management. More specifically, it is a tool useful to the party or parties charged with direction of the marketing activities of business. It is the function of marketing research to provide knowledge on which decisions concerning marketing can be based. It can render information concerning the alternative courses of action available, the means and methods by which each course of action may be carried out, and it facilitates measurement of the effectiveness of each operational procedure employed. To understand more clearly the role of marketing research in business operations, it is necessary to understand the task of management in the marketing field.

The party charged with the management of marketing activities has a twofold task. He must devise the marketing program to be followed and he must see that that program is carried out.[1] This dual role is often referred to as planning and execution. The function of planning breaks down into two parts: that of combining the various means available to reach an objective, and that of evaluating the results achieved.[2]

To accomplish the latter, it is necessary to impute to each factor the results for which it is responsible. Simply stated, then, the planning function may be said to consist of two steps: (1) combination, and (2) imputation.

The marketing executive has many alternative means available to him when deciding upon selling policies to be followed. He may use advertising, personal selling, price reductions, premiums, etc. Therefore, he is faced with the task of deciding which of these to use and how much to rely upon each. If the marketing executive is to act rationally in deciding upon the course of action he will follow, he must know, to the extent that he is able, what effect various policies will have upon sales volume.[3]

It is the function of marketing research to facilitate the performance of the marketing management task. It fulfills this role

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[1] D. M. Phelps, Sales Management: Policies and Procedures (Chicago: Richard D. Irwin, Inc., 1951), p. 4.

[2] "Essentially then, the task of the producer is to combine the factors of production in the correct proportions, always attempting to achieve the lowest cost combinations. . . . In order to make effective combinations the producer must know, insofar as that is possible, the contribution of each production factor, or of varying quantities of each factor, to the final product result." The term "producer" is here used in its broad sense, referring to the creator of utilities. Marketing management, therefore, is included. D. M. Phelps, Marketing Research: Its Function, Scope, and Method (Ann Arbor: Bureau of Business Research, University of Michigan, 1937), p. 29.

[3] Ibid., p. 33.

by making available to management essential facts which form the basis for business decisions. That management, in the absence of marketing research, does not have these facts is apparent.[1] Just a cursory examination of business performance reveals this. Business losses and even failures due to unwise decisions concerning marketing operations are a frequent occurrence. Certainly the opportunity to improve the effectiveness of marketing management is present.

The "Efficiency" Concept

The selling process can be compared to a machine. The greater the output of power of a machine per unit of input, the greater the machine's efficiency. The same is true for the selling process. The greater the sales (output) per unit of selling effort (input), the more efficiently is the selling task being performed. The engineer refers to the output/input ratio as the "efficiency" of a machine. The economist makes use of the same concept when he uses the term "productivity." By it, he refers to the ratio of utility received by consumers to the inputs of land, labor, and capital required to provide this utility.

It is common practice to depict output/input relationships in the field of economics for units of product (output) and the factors

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[1] See Arthur C. Nielsen, Advances in Scientific Marketing Research (Chicago: The A. C. Nielsen Company, 1944), p. 2 for comment on this point. Over a long period, every time the Nielsen Company was ready to present survey results to a client, they suggested that the client write down, before examining the survey results, his answers to all the questions which were asked in the survey. This evidence of executive judgment was then compared with the survey results. It was discovered that the average executive is correct, or substantially so, on 58 per cent of the important marketing questions. It must be remembered that on many of these questions there are many possible answers. It should also be noted that this source gives no information concerning the types of executives involved, the nature of the questions asked, etc.

of production (input).[1] This same procedure can be used to show the relationship between sales and the input of selling effort required to accomplish those sales. Figure 16 shows such a relationship. Total sales in units is measured on the vertical axis. Selling effort expended, such as advertising, premiums, free deals, personal selling, etc., is measured on the horizontal axis. For our purposes here, a price reduction may be considered the equivalent of other forms of selling effort. The ratio of output to input would be greatest at the point where a line drawn from the origin is tangent to the total sales curve. This is, of course, the point at which the average sales (see Figure 16) would be at a maximum.

The effect of marketing research should be to raise the total sales curve. By making possible a more effective employment of selling effort, it should make possible a larger sales volume for any given level of selling costs. The broken line (Total Sales 2) in Figure 16 depicts this higher level of sales. The constant increase in sales shown for all levels of selling effort may be in error. It is possible that marketing research is much more effective at some levels of selling effort than at others. Nevertheless, the over-all effect will be to increase the output per unit of input, thus raising the average sales curve somewhat in the manner shown in Figure 16. It should be borne in mind that selling effort should not be held to that point where average product is the greatest, but should be extended to the point where marginal cost equals marginal revenue. In effect, the result of marketing research is to shift this point to the right.

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[1] See George J. Stigler, The Theory of Price (New York: The Macmillan Company, 1946), pp. 42-51 for a concise, yet complete, development of this process.

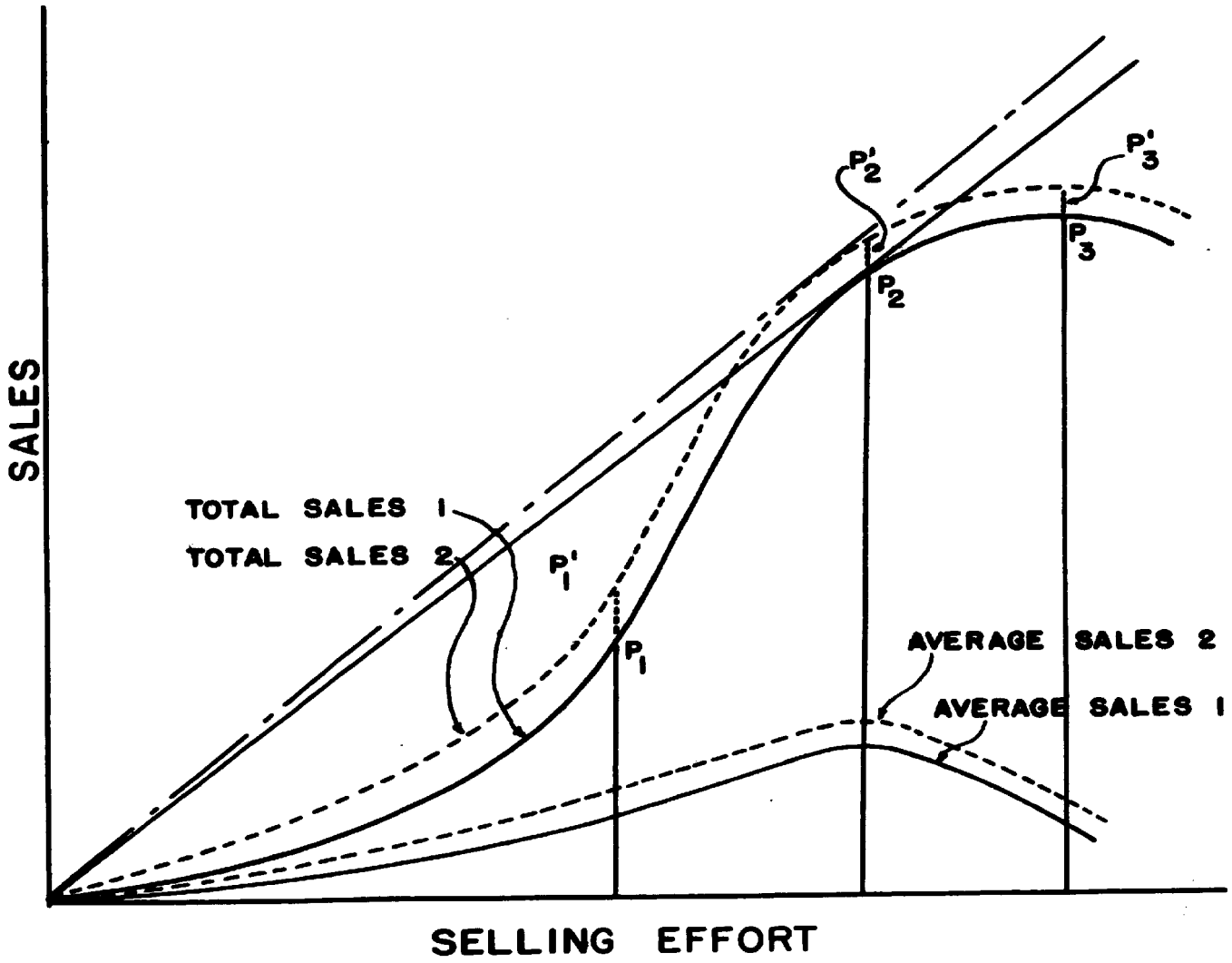

SALES
TOTAL SALES 1
TOTAL SALES 2
P'1
P1
P'2
P2
P'3
P3
AVERAGE SALES 2
AVERAGE SALES 1
SELLING EFFORT

FIGURE 16

The effect of marketing research upon the efficiency of selling effort is, in a sense, a threefold one. Certain marketing research is directed primarily at reducing selling costs for a particular sales volume. Other marketing research knowledge more directly serves the objective of increasing sales volume. Much marketing research serves both these functions at the same time. The net result of all of these functions is the same -- an increase in the efficiency of selling effort. It is only a question of what constitutes the primary objective of the research task.

Effects Which Increase Efficiency of Selling Effort

To indicate, as was done just above, that the effect of marketing research is to increase the efficiency of selling effort, is not of great value to anyone attempting to arrive at an assessment of the effects of marketing research. It is necessary to deduce, to the extent possible, the specific ways in which marketing research affects selling efficiency. In the following pages, this is attempted.

Production of Correct Quantities

Inadequate knowledge of the quantity of a product which a market can be expected to take may mean that either too much or too little of a product will be turned out. To avoid this possibility, it is necessary to have a correct estimate of the quantity of a product which the market can be expected to take. Provision of such knowledge is one of the major objectives of marketing research.

The ability to adjust quantities produced to demand for a product as a consequence of use of the retail store audit and consumer panel data, particularly the latter, derives from the value of these data as indicators of sales potential. As discussed at length in Chapter III, these

data serve as an operating base in the determination of demand. They reveal actual sales by areas, income classes, age groups, etc. A knowledge of the breakdown of actual sales is an aid in the determination of potential sales. Many factors, of course, which affect sales possibilities are not revealed by these data.

When production is for stock, there always exists the risk that production may exceed market requirements. Excess production of a product in light of the demand for it affects marketing costs in several ways. First, excess production obviously means that inventories of the product will be excessive. Excess inventories increase marketing costs. Capital must be committed to inventory maintenance and cannot be employed for other purposes. Storage costs are incurred. Spoilage and obsolescence might be involved. The net result of inventories which are larger than necessary is, quite obviously, an increase in distribution cost.

In the second place, production of quantities in excess of demand is very likely to lead to either lower prices in an attempt to move the excess supply, or to increased selling effort in order to accomplish the same thing. As mentioned above, the acceptance of a lower price in order to move merchandise is, in a very real sense, the equivalent of an increase in selling cost. The necessity of marking down the price of a product may have more far-reaching effects than this. Frequent markdowns of the price of a product may endanger the relations of a manufacturer with the middlemen who handle his goods. Often a reduction of the retail price of a product by a manufacturer forces retailers and wholesalers to take an inventory loss. To avoid this, manufacturers often make rebates to middlemen when they reduce their prices. This constitutes an obvious increase in selling cost. However,

any unfavorable disturbance of a manufacturer's trade relations is likely to be costly. If wholesalers and retailers are dissatisfied with a manufacturer's distribution policies, they might be nonaggressive in pushing the sale of his product, or might even refuse to handle it. This would directly affect his sales volume and would tend to drive up his selling costs. It would necessitate use by the manufacturer of other promotional devices to compensate for the lack of dealer support for his product. In some instances, marking down the price of a product undermines the reputation of that product among consumers. This, also, would directly affect sales of the good concerned and tend indirectly to increase selling costs.

An absence of knowledge of the market demand for a product might result in production of an inadequate supply of a product as well as an over-supply of a product relative to demand. The effect of such a situation upon a firm's sales is quite apparent. Goods which do not exist cannot be sold. For most firms, faced as they are by direct and strong competition, sales not made by one firm today are usually made by a competitor. An under-supply of a product, just as an over-supply, may adversely affect a manufacturer's trade relations.

A knowledge of market potentials may act as a stimulus to sales effort in that the known potential serves as a goal for which to strive, thus providing an incentive which might otherwise be absent. If sales potentials serve this purpose, then they are likely, as a result, to bring about an increase in a firm's sales. Market potentials, furthermore, are a most effective aid to sales planning. To the extent that wise planning of the sales effort aids in the gaining of a certain sales volume at lower cost, a knowledge of market potentials serves to increase the efficiency of the selling task.

Proper Allocation of Products Over the Market

The seller has a twofold problem in allocating his products over the market available to him. Goods must be so located geographically that demand for the product can be met. By a correct placement of stocks it is possible to avoid a shortage at one place and a surplus elsewhere at the same time. If proper allocation is not accomplished, possible sales will be foregone in one part of the market while excess inventories are maintained in other areas. The net result of this sort of situation is quite apparent. It means reduced sales and, at the same time, an absolute increase in selling costs.

The other aspect of the problem of allocating goods over the market concerns having goods available at the right time. This is particularly true, of course, for perishable goods. Sales will be foregone if products are not available when required. Needless costs will be incurred in having them available when demand does not exist. As was fully discussed in Chapter III, both the retail store audit and consumer purchase panel aid in the determination of market potentials, revealing variations in demand both by place and by time.

Allocation of Promotional Effort

All potential buyers of a product are not equally accessible. Some have greater need for the product than others. Some are more susceptible to available selling appeals than are others. The "sales resistance" which must be broken down varies greatly for different buyers and different groups of buyers. Those markets most easily reached and offering the least resistance can be exploited at the lowest selling cost per unit. Selling costs will rise as efforts are directed towards successively poorer markets. Diminishing returns from

selling effort are inevitable as a seller moves down his scale of markets. Therefore, it follows that sales will be at a maximum, and selling costs per unit at a minimum, when advertising is disseminated over the total market in accordance with potential demand. In some cases, of course, expediency will temporarily dictate other action. In the long run, however, promotional effort can, quite obviously, be most productive in those areas where potential demand for the product concerned is most favorable. The consumer purchase panel, therefore, by indicating the relative potential demand of different segments of the total market, contributes to a more "efficient" use of selling effort.

Formulation of Promotional Effort

In arriving at a proper formulation of promotional effort, a firm has three principal questions to answer. First, it must answer the question of how much promotion should be used. Second, it must determine the appeals to employ in its promotion. Third, it must ascertain how this promotional effort should be channeled to consumers. These questions, of course, are not mutually exclusive. The kind of promotional appeals chosen, for example, partially determines the channel by which that effort should reach consumers.

A determination of how much promotional effort to employ is not a simple problem. Business firms follow a multitude of practices in this regard, no one of which is completely satisfactory. A common method used is to fix the promotional budget as a percentage of past or expected sales. This completely ignores the fact that promotion is a determinant of sales, not a result of sales. Another method is to spend whatever it is felt the firm can afford. This may result in promotional expenditures being completely out-of-line with the objectives it is designed to attain. The

"objective-and-task" method of determining the promotional budget is coming to be commonly employed. In practice, the objective, stated in terms of sales volume, tends to be based on the preceding year's volume. If this is true, the method offers little advantage over the percentage-of-sales method. A policy of matching competitors' promotional expenditures, also quite commonly used, does not necessarily lead a firm to a wise use of its promotional funds.

Marginal analysis, commonly used as a tool in the solution of many economic problems, is also applicable in determining the total promotional outlay, and is, at least in theory, substantially superior to any method mentioned above.[1] This method simply holds that promotional expenditures should be extended to the point where the additional (marginal) outlay equals the profit from the added sales caused by the outlay. This approach is illustrated in its simplest form in Figure 17. Marginal production costs and distribution costs other than promotional costs, jointly labeled "other" costs, are assumed to be constant at $.60 per unit. Price is held constant at $1.20. The upward swing in the incremental promotion cost curve reflects the tapping of successively poorer prospects as the promotional effort is intensified, or the exhaustion of the most efficient promotional media. Under these circumstances, it would be profitable to expand promotional expenditures until the promotional cost curve intersects the price line.

The greatest weakness of this approach lies in the difficulty of determining the point where marginal promotional cost is equal to the marginal revenue produced by the promotion employed. In order to

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[1] See Joel Dean, "How Much to Spend on Advertising," Harvard Business Review, Vol. XXIX, No. 1 (January, 1951), pp. 65-74, for an excellent account of this method of determining advertising expenditures and its superiority to the other methods mentioned above.

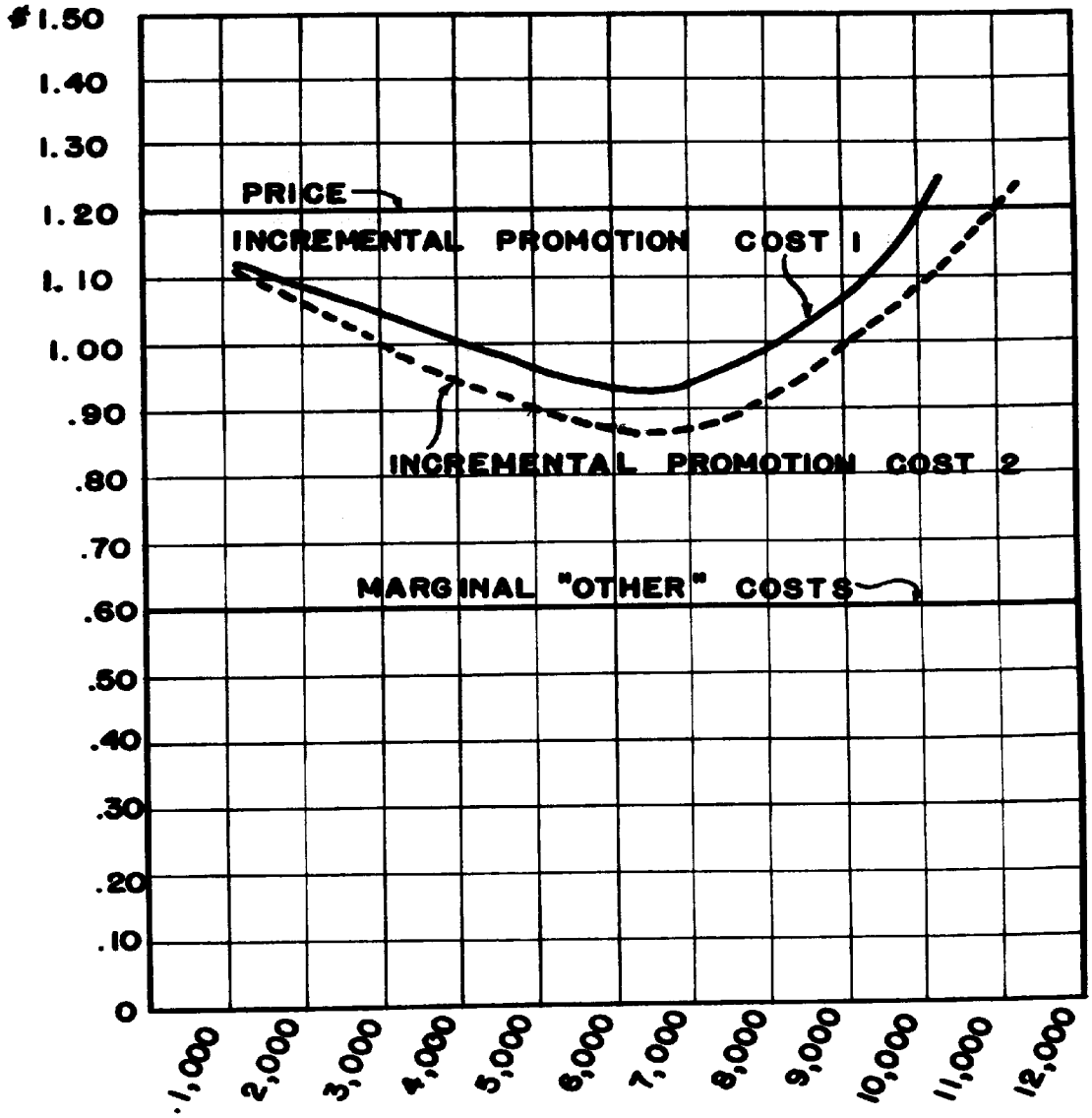

$1.50
1.40
1.30
1.20
1.10
1.00
.90
.80
.70
.60
.50
.40
.30
.20
.10
0
PRICE
INCREMENTAL PROMOTION COST 1
INCREMENTAL PROMOTION COST 2
MARGINAL "OTHER" COSTS
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000
9,000
10,000
11,000
12,000
SALES VOLUME

FIGURE 17

do this, some ability to measure the results achieved by the promotional effort is necessary. Chapter III included a discussion of the aid afforded by the retail store audit and consumer purchase panel in measuring the effectiveness of promotion. Their primary contribution in this respect is the provision of consumer sales figures. In Chapter III it was shown why factory sales figures could not be used. Also, by making possible a comparison of purchases by those groups at whom promotion was directed with purchases by those groups not so stimulated, an estimate of sales due to advertising can be arrived at. Therefore, by making possible a better measure of the effectiveness of advertising, the retail store audit and consumer purchase panel methods of marketing research make possible a more accurate determination of the amount of promotion which should be employed.

Not only do these services help a firm in determining the amount which it should expend on promotion, but they also allow a more effective use of these funds. As pointed out in the previous section, they are of value in allocating promotional effort in accordance with potential demand for the product concerned. It will be shown below that they facilitate the making of decisions concerning the kind of promotion to use and the manner of getting this promotion to the consumer. To the extent that these services aid in this respect, they shift the marginal promotional cost curve to the right. That is, the "efficiency" of the promotional tools used is enhanced. The result of this is shown in Figure 17 by the broken marginal promotion cost curve.

It is not sufficient for a firm to decide upon merely the amount of promotional effort in which it will engage. It must also ascertain the promotional appeals which will serve its objectives most effectively. A proper selection of appeals depends upon a knowledge of the consumer

market for which the promotion is destined. As explained in Chapter III, the consumer purchase panel is very valuable in this regard. It defines fairly completely the consumer of a particular product. Knowing what the consumer of a product is like, promotional appeals can be tailored to fit the product's market. Obviously, this will lower selling costs per unit by increasing the effectiveness of a firm's promotion.

The use of the retail store audit and consumer purchase panel, especially the latter, in the selection of promotional media was covered at length in Chapter III. Again, by defining a product's market, it makes possible the selection of media which will reach that market in such manner that cost will be kept at a minimum and sales at a maximum per dollar expended. This also will tend to shift the marginal promotion cost curve to the right (see Figure 17), thus increasing the efficiency of a firm's selling effort.

Use of Non-Price Competitive Methods

Various factors in our economy have served to produce a growing emphasis upon non-price competitive activities. The existence of price leadership, fair trade legislation, unfair trade practices acts, etc., all of which tend to produce a uniformity of price, have led sellers to attempt to gain patronage by other means than a reduction in the prices of their products.[1] Increasing living standards have also served to divert attention from price to non-price competition. As the purchasing power of consumers is enhanced, the price of products tends to be reduced in importance as a selling factor while other features become relatively more effective in promoting the sale of merchandise. The existence of the two marketing research methods with which this paper is concerned

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[1] C. F. Phillips and D. J. Duncan, Marketing: Principles and Methods (Chicago: Richard D. Irwin, Inc., 1949), p. 603.

is not, certainly, the most important factor leading toward increased emphasis on non-price competition. It is, however, an important contributing cause.

It is imperfect knowledge among consumers which makes possible the use of non-price promotional efforts, particularly advertising, by sellers. The seller may increase the market for his product by spreading knowledge of that product among consumers. At the same time, it is the existence of imperfect knowledge among sellers which leads these sellers away from non-price competition. If a seller does not know who are the buyers of his product, and many sellers do not, obviously he cannot know what those buyers are like. If he does not understand the nature of the buyers of his product, he cannot know how to appeal to them most effectively, either with respect to product design, etc., or with respect to promotional appeals. If a seller does not know the nature of his market or the potential demand for his product, he cannot know how important the price element is in the sale of his product or the willingness of consumers to pay a price premium for his product. Assuming that the seller has such imperfect knowledge of his market and of the means of reaching that market effectively with a sales message, it is likely that the seller will either not use non-price competitive weapons extensively or, if he does use them, will not employ them with a high degree of effectiveness.

The availability of retail store audit and consumer purchase panel marketing research techniques helps to remove this impediment to the use of non-price competitive weapons. Retail store audit data provide substantial information about factors affecting the movement of a manufacturer's product at the retail store level. It is of great aid to a manufacturer in the formulation of promotional effort which

is directed at or which involves retailers. Consumer purchase panel data, as was fully explained in Chapter III, provides a seller with a considerable amount of information which is of great value in the formulation and execution of promotional effort designed to influence the behavior of consumers. It tells a seller who his customers are, what they are like, how much they buy, where they buy, when they buy, and so on. In addition, these data facilitate the seller's taks of measuring the effectiveness of his promotional effort. The net result of this is an increase in the effectiveness with which the individual firm subscribing to these data is able to employ non-price competitive techniques.

It is reasonable to expect that an improvement in the ability of a seller to utilize non-price competitive tools will result in an increase in the use of such tools. Quite naturally, firms are reluctant to use forms of selling effort which are not demonstrably effective in enhancing sales volume, and are anxious to avail themselves of devices which fulfill this function. This is not to imply that an increase in emphasis on such non-price efforts as advertising, styling, and so on necessarily means higher prices to consumers.

The Effect on Pricing

The improper determination and administration of price not only has a direct effect on sales by the reduction which it brings about in the incentive of consumers to purchase, but also indirectly affects sales possibilities by serving as an obstacle to the effective use of non-price sales promotional weapons. Prices may be set at too high or too low a level. They may be administered wisely or unwisely. They may, consequently, serve to enhance or to reduce sales. If pricing is

so handled that the effect upon sales is adverse, then other sales promotional devices must be even more effective if a given sales objective is to be achieved. It follows from this that if pricing is effectively handled by a seller, other selling efforts made by him will be more productive.

Chapter III discussed at length the ways in which retail store audit and consumer purchase panel data increased the effectiveness of pricing for subscribing firms. Knowledge which increases the effectiveness of a manufacturer's pricing practices at the retail store level are provided by the retail store audit. The consumer purchase panel provides information essential to an effective price policy at the consumer level. Together these services are effective in (1) making price a more effective sales tool, thus permitting more sales at a lower cost, and (2) making other sales promotional devices either more effective by removing obstacles to their success, or less necessary, either of which tends to enhance the over-all efficiency of selling effort.

Although the use of these data by business firms is likely to lead to a greater emphasis on non-price competition relative to price competition, because of the increased ability with which non-price competitive weapons can now be used, it must not be assumed that prices will, in the long-run, be higher than they would be in the absence of such data. Just the opposite might be true. The effect of the increased use of non-price competition may be such that price reductions are stimulated. This result derives from the effect of these non-price activities upon the elasticity of demand.

The promotional activities of sellers increase knowledge of a product among consumers and, as a consequence, tend to make the demand

for a product class more elastic.[1] This is well illustrated by the demand situation prevailing for products of a type new to the market. Such products are unknown to many consumers, not understood or appreciated by most, and not desired by more than a very limited group. For such a product, how effective is a price reduction in stimulating sales? People do not buy more of a product they do not want because the price has been reduced. The demand for such products is, therefore, relatively inelastic. However, if this product is promoted to consumers and a desire for it developed among many consumers, a price cut might be effective in increasing demand. Demand for the product has tended to become more elastic as knowledge of the product has increased among consumers.

Price reductions might, in many instances, be made possible largely as a result of the effective use of non-price competitive weapons. Promotion, if effective, can provide the sales volume necessary to mass production, which reduces production costs and makes lower prices to the consumer possible.[2] This situation could exist, of course, only up to the point where optimum size of plant is reached. Nevertheless, it indicates that the long-run effect of increased use of non-price

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[1]"A seller will be successful in increasing his sales at a lower price in proportion as the knowledge of his offer reaches a larger number of possible buyers. By spreading this knowledge, advertising makes the demand for his product more elastic . . . at the lower price it increases, not only by the limited amount possible if no one but regular and a few casual purchasers knew of it, but by a larger amount depending upon the size of the advertising outlay and the skill with which it is applied. Imperfect knowledge in itself makes the demand curves for all products less elastic; advertising, through offsetting it, makes them more so." Edward H. Chamberlin, The Theory of Monopolistic Competition, Fifth Edition (Cambridge: Harvard University Press, 1947), p. 118.

[2]See Charles N. Davisson, "Advertising -- Economic Gain or Loss," Michigan Business Review, Vol. II, No. 3 (May, 1950), p. 10.

competitive methods, which results from more widespread employment of retail store audit and consumer purchase panel data, might be lower prices rather than higher prices. The case of refrigerators, whose average price fell from $600 in 1920 to $100 in 1940 in the face of heavy non-price promotion by the refrigeration industry is a case in point.[1]

The effect produced by use of these data upon demand for the product of an individual manufacturer, as distinct from the effect upon demand for a product class, is not so clear. Brand advertising, stimulated by use of these data, should normally tend to make demand for a certain brand less elastic.[2] To the extent that a preference for a particular brand is established among consumers, price reductions on competing brands will have less effect upon its sale. Certainly sellers act as if advertising has made the demand for their products more inelastic. Well-advertised articles tend to be much more rigid in price than non-advertised.[3]

There is a need for caution in concluding that reliance on non-price competition has the effect of making demand for a manufacturer's brand much less elastic. First of all, rigid prices do not prove the inelasticity of demand. They show merely that sellers acted as if the demand for their products were inelastic. Secondly, many concerns which

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[1] Neil Borden, Advertising in Our Economy (Chicago: Richard D. Irwin, Inc., 1945), pp. 110-112.

[2] "The evidence indicates that the advertising of brands tends to make their demands relatively inelastic for varying periods of time. . . . That brand advertising would have this effect is natural, for an objective of brand advertising is to build consumer preferences. Some consumers will stick by a brand even though its price relationships with competing brands are disturbed." Neil H. Borden, The Economic Effects of Advertising (Chicago: Richard D. Irwin, Inc., 1947) p. 850.

[3] Ibid., p. 850.

held prices rigid lost considerable business in periods of depression to private branders who have been more flexible in their pricing.[1] Thirdly, for many convenience goods, consumers, in the presence of brand advertising, seem to develop a loyalty to a group of brands, not to a single brand.[2] Within this group, the individual seller's product would continue to have an elastic demand. However, consumers will pay a price premium in many cases to obtain the brand of their choice. Some degree of inelasticity, therefore, must be present.

The general level of prices existing for a particular class of product is determined more by the effect which non-price competition has on the elasticity of primary demand than by its effect on demand for a particular brand. As pointed out above, such activity does not greatly affect the elasticity of demand for a particular brand. Consequently, a seller is limited in his ability to price his product above competing goods. Brand prices will be grouped about the level determined by demand for the class of products as such. Therefore, use of retail store audit and consumer purchase panel data, because it stimulates use of, and makes more effective, non-price competitive activities, should make demand for many groups of products more elastic and produce a lowering of prices for those products.

Market Control

Proper use of retail store audit and consumer purchase panel data serves to enhance the degree of control which a seller exercises over the marketing of his product. In essence, the control which a manufacturer has over his marketing process depends upon the level of

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[1] Ibid., p. 864.

[2] Samuel G. Barton, Developments of Techniques on Consumer Panel Research (Chicago: Industrial Surveys Company), p. 10.

demand which exists among consumers for his goods. If a mere willingness to accept his products exists among consumers, the manufacturer has little to say about how his goods are handled by middlemen. If there is a preference or insistence among consumers for his goods, his control over the marketing of those products is proportionately greater. The level of demand which exists for a manufacturer's product depends, in turn, upon how well his product is adapted to the needs of consumers and upon the effectiveness of his promotion and pricing policies in stimulating demand for his goods. The effectiveness of these factors is enhanced, as has already been discussed at length, by the availability and proper use of retail store audit and consumer purchase panel data.

The control which a manufacturer possesses over the marketing of his product is reflected in such things as: (1) the margins he must grant middlemen to handle his product, (2) the willingness of more and better outlets to stock his products, (3) his ability to maintain retail prices, and (4) the aggressiveness of retailers in merchandising his goods. The more insistent consumers are upon procuring his products relative to competing brands on the market, the more favorable will be his position with respect to these factors.

If a manufacturer is successful in creating a consumer preference for his products, the margins it is necessary to grant wholesalers and retailers will be smaller. Middlemen, must, to operate successfully, carry products which their customers want to purchase. They will stock products in great demand even though margins on those products are low. The intensive distribution obtained by popular brands of cigarettes, soft drinks, and canned milk, which typically offer middlemen very narrow margins, serves to illustrate this point. Products in high demand also have a more rapid turnover rate, and middlemen recognize

that the low margins are compensated for by greater unit volume. Lower margins for middlemen represent, to the manufacturer, a reduction in the cost of marketing his product.

It is an objective of some manufacturers to distribute their products through the "best" outlets obtainable. Sometimes the objective is to gain the most outlets possible. In either case, the manufacturer whose products are strongly desired by consumers is better able to control the distribution of his products with respect to these two factors. From what has been said just above, it is apparent that the manufacturer with a much wanted product can, to a greater degree than other producers, choose the outlets for his product.

If a manufacturer's price determination policies are sound, it stands to reason that he would like to have the retail prices which he establishes for his goods maintained by middlemen. Also, it is to a manufacturer's advantage to have dealers advertise and display his products. If a product is strongly demanded by consumers, and especially if there exists a danger that a manufacturer will remove a dealer's right to handle a product, there is a much greater chance that prices on that product will be maintained and that it will be aggressively promoted by middlemen.

The role of the retail store audit and consumer purchase panel in providing manufacturers with greater control over the marketing process is apparent. They provide data which enable a manufacturer to more effectively stimulate demand for his product. They provide information helpful in achieving more effective promotion, pricing, and physical distribution. Consequently, they give him elements of control which allow him to direct the efforts of middlemen in such manner that his sales will be greater per dollar spent on selling effort.

Channels of Distribution

The ways in which retail store audit and consumer purchase panel data are useful to subscribing firms in the selection of proper channels of distribution were discussed at length in Chapter III. It was there pointed out that these data locate the market for a manufacturer's product, provide information on buying habits of consumers, and provide pertinent knowledge about the various retail institutions through which this product could be channeled to consumers. Although much information necessary to proper channel selection is not provided by these data, the seller with the knowledge they do provide has a distinct advantage. If these services make possible a selection of channels best suited to a product's distribution requirements, the result must be an increase in sales volume per dollar of cost incurred.

There is another far-reaching but much less obvious effect which the availability of these data is likely to have upon the problem of selecting channels of distribution. For many years there has been a trend towards direct distribution of goods.[1] There are many reasons for this trend toward direct distribution. Some of these reasons are sound, others reflect a lack of understanding among manufacturers of the virtues of indirect distribution of goods. All of these reasons have been fully

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[1] "In recent years there has been a definite trend for manufacturers to sell directly instead of using intermediaries. Some of them have been satisfied with the elimination of certain functional middlemen; others have sought to go further and shut out the wholesaler; while still others have attempted to eliminate the retailer also, by going directly to the ultimate consumer either by mail, through house-to-house canvassers, or through their own retail stores." T. N. Beckman and N. H. Engle, Wholesaling: Principles and Practice (New York: The Ronald Press Company, 1937), Chap. 13.

covered in other writings, and will not be repeated.[1] The important point to be noted here is that the existence of these data partially removes some of the common reasons for direct distribution, and consequently tends to counteract this trend. Certainly, though, the effect of these data is not great enough to reverse this trend.

One factor prompting this desire for direct distribution is a desire among manufacturers to "keep contact" with their markets. This close contact is wanted because it permits the acquisition of more reliable information about the wants and buying habits of consumers, as well as the merchandising policies of retailers. This desire is particularly strong among producers of style merchandise. With respect to such goods, consumer wants are in a constant state of flux, and close contact aids in the correct anticipation of shifts in demand. Even for products not marked by a strong style element, manufacturers have recognized that the wide gap separating them from consumers is a hindrance to the effective management of selling effort, and have chosen direct distribution as a means of lessening this handicap. It should be readily apparent that the retail store audit and consumer purchase panel, as well as other methods of marketing research, constitute an alternative to direct distribution as a means of "keeping contact" with a market. The first three chapters of this thesis explained, in effect, how they accomplish this. To the extent that they are effective, therefore, they lessen the need for direct distribution. As a consequence, these data serve as a force which should somewhat reduce the trend toward

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[1]For a full discussion of this trend toward direct distribution, see any of the following: H. H. Maynard and T. N. Beckman, Principles of Marketing, Fourth Edition, (New York: The Ronald Press Company, 1946), Chap. 17; C. F. Phillips and D. J. Duncan, Marketing: Principles and Methods (Chicago: Richard D. Irwin, Inc., 1949), Chap. 17; T. N. Beckman and N. H. Engle, Wholesaling: Principles and Practice (New York: The Ronald Press Company, 1937), Chap. 13.

direct distribution.

Many manufacturers are desirous of exercising close control over the marketing of their products until they reach the hands of the ultimate consumer.[1] This desire springs from many sources, but fundamental to them all is the belief that the manufacturer can better decide how his product can be effectively sold than can wholesalers and retailers. Some manufacturers have attempted to gain such control by going direct to retailers with their products.[2] In the immediately foregoing section, however, it was pointed out that retail store audit and consumer purchase panel data provide a manufacturer with the means of exercising greater control over the marketing of his product without requiring direct distribution. The existence of this alternative to direct selling for this purpose should, it seems, tend to lessen the trend toward circumvention of wholesalers.

One of the most important reasons for the elimination of the wholesaler by some manufacturers is dissatisfaction with his services and general attitude toward the manufacturer's goods and policies.[3] Some manufacturers charge that wholesalers do not create a sufficient demand for their products and often are unwilling to make the attempt. It is also contended that wholesalers fail to cooperate with the manufacturer in making his advertising effort effective. Retail store audit and consumer purchase panel data serve, in effect, to make the manufacturer less reliant upon wholesalers in these respects. As was explained above, these data aid a manufacturer in understanding his market, channeling

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[1] H. H. Maynard and T. N. Beckman, Principles of Marketing, op. cit., p. 303.

[2] Ibid., p. 303.

[3] T. N. Beckman and N. H. Engle, Wholesaling: Principles and Practice, op. cit., p. 251.

promotional effort to that market, pricing his products, etc. If he can use promotion to ultimate consumers effectively enough to create a strong demand for his products, he is less dependent on the promotional efforts of wholesalers. In effect, better promotion to ultimate consumers acts as a substitute for the cooperation of the wholesaler. Because direct distribution is often very costly, some manufacturers should be anxious to avail themselves of this substitute.

Limitations on Effectiveness of These Data

By and large, the effects of the use of retail store audit and consumer purchase panel data are those which increase the efficiency of selling effort. That is, of course, the function marketing research is designed to serve. In practice, however, it does not always serve this function fully. There are some effects of marketing research which, under certain circumstances, may reduce the efficiency of selling effort. In other cases, marketing research data is employed in such manner that its full benefits in terms of increased selling efficiency cannot be realized. Usually there are weaknesses in the data which limit their ability as an efficiency generating tool of management. These are the topics discussed in this section.

Tendency to Withhold Competitive Action

A long-run, but definitely not a short-run, effect of the use of retail store audit and consumer purchase panel data may very well be a tendency among subscribing firms to withhold competitive action. This result is a very distinct possibility because of the following three factors:

1. These data reveal to each subscriber what his competitors are doing.

2. These data enable subscribing firms to measure the effectiveness of competitors' actions.

3. These data provide each subscriber with information valuable in meeting moves of competitors.

The conclusion that the existence of these three factors may cause subscribing firms to withhold competitive action is founded on what seems to be a logical extension of the theory of oligopoly. It has long been recognized that a seller may refrain from reducing his price if he expects that his competitors will meet his price cut and that his competitive advantage, consequently, will be short lived.[1] This is the heart of the general theory of oligopoly. Oligopoly is characterized by the existence of a relatively small number of firms in an industry. Each concern, consequently, significantly affects the market by its actions, and is also well aware of the actions of its competitors.[2]

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[1] "When a move by one seller evidently forces the other to make a counter move, he is very stupidly refusing to look further than his nose if he proceeds on the assumption that it will not. For one competitor to take into account the alterations of policy which he forces upon the other is simply for him to consider the indirect consequences of his own act. Let each seller, then, in seeking to maximize his profit, reflect well, and look into the total consequences of his move. He must consider not merely what his competitor is doing now, but also what he will be forced to do in the light of the change which he himself is contemplating." E. H. Chamberlin, The Theory of Monopolistic Competition, Fifth Edition (Chambridge: Harvard University Press, 1947), p. 118.

[2] "Another bit of economic reality which has a bearing upon the extent of pure price competition is that many industries which fall short of monopoly are represented by only a few large concerns. This situation is technically called "oligopoly," that is, few sellers. A result is that any one of these concerns, in determining its volume of production or the price which it will ask for its products, must take into account the effect of those policies upon other companies and their probable reaction thereto, and finally, the effect of the policies of those competing companies upon itself." Clare E. Griffin, Enterprise in a Free Society (Chicago: Richard D. Irwin, Inc., 1949), p. 283.

Under oligopoly, a knowledge of moves made by a competitor and a knowledge of the effects of those moves upon competing firms results from the fact that there exists but a small number of sellers. The effect of the availability of retail store audit and consumer purchase panel data is to provide a source of knowledge of competitors' moves which is reliable whether the number of competitors is small or even relatively large. In effect, these data are a substitute for the "few firms" requirement of the theory of oligopoly.

The matching of moves of competitors operating in an oligopolistic environment is viewed as applying primarily to price competition. In addition, it is held that the expectation that any price cut will be matched leads an oligopolist to compete on grounds other than price in order to reduce the threat of retaliation.[1]

The effect of the existence of retail store audit and consumer purchase panel data, as well as other marketing research information, is to extend this tendency of an oligopolist to withhold action, because of the threat of retaliation, from price competition to other methods of competition as well. Because these data reveal to a subscribing firm what his competitors are doing and how effective their actions are, retaliation is invited. Furthermore, these data make it likely that this retaliation will be more effective than it would be in their absence. Therefore, the initial competitive move is less likely to occur.

This conclusion must be qualified on several grounds. First, degenerative retaliation in non-price competition is less likely, even

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[1] "The effect of a small number of producers, then, has been principally to divert effort from price reduction (which can be promptly imitated) to other elements in which a competitive advantage can be hoped to be more permanent." Ibid., p. 284

in the presence of these data, than in price competition. Retaliation in non-price competition is more difficult. On some grounds, identical duplication of effort is impossible. Quality of advertising copy and appropriateness of media, for example, will vary. Uncertainty about the results of non-price competition, even though these data are available, may slow the urge to retaliate. Second, this is definitely a long-run result. There are too few users of these data at present for this fear of retaliation to be widespread. However, as the number of subscribers increases, this result is likely to become more apparent.

Effects Conditioned by Use

The effects upon subscribing firms produced by the availability and use of retail store audit and consumer purchase panel data are determined to a large degree by the extent of use and manner of use of these data. For example, it was noted in the previous section that the tendency of these data to produce a "withholding of action" effect was strictly a long-run consideration. In the short-run, there are too few subscribers to these services for this effect to be present.[1]

During the present and in the future, effects produced by "under-use" and "over-use" of these data will exist. Many of the firms which subscribe to these data make very little use of them.[2] Obviously, mere subscription to these data, as distinct from effective use of them, will not enhance a firm's selling efficiency or produce changes in the methods by which it chooses to compete. Therefore, the effects of these

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[1] As of July 15, 1950, Industrial Surveys Company had 46 subscribers. The A. C. Nielsen Company had, on February 5, 1951, 103 subscribers to its Food, Drug, and Liquor Index.

[2] One firm visited by the author made almost no use of the Nielsen data which it obtained. It has since discontinued its subscription.

data discussed earlier in this chapter will not be gained by these subscribers, and the efficiency of their selling efforts will not be increased.

Some subscribers to these data probably "over-use" them. They take action as a result of statistically insignificant changes in the market position of their brands as revealed by these services. Sometimes they make use of data derived from sub-samples which are not statistically reliable. These are errors which derive, in a sense, from weaknesses in the data themselves. The following section of this chapter treats such problems in detail. Therefore, they will not be discussed here. More pertinent to our present discussion is the tendency of some firms to "over-use" these data by allowing their mere existence to direct their attention unduly toward short-run market changes.

These data provide knowledge of a firm's current market position and of changes which occur in that position. The attention of operating executives is continuously directed at these changes, and if the change in position is undesirable, such questions as "Why did it occur?" and "What can be done about it?" are likely to be forthcoming. Knowing that these data are being used to judge his performance, the operating executive cannot allow them to reflect unfavorably upon his operations for long. Thus, he is induced to take action.

The concern of executives with short-run problems revealed by these data is emphasized by their attitude toward the value of these services. In interviews with executives of business firms using these data, the most common criticism mentioned was the tardiness of the information. Almost every executive contacted stressed this weakness of these services. This criticism was not only mentioned, it was

strongly emphasized. A few seemed to feel that this made these data almost valueless. Yet, consumer purchase panel data is provided every thirty days, retail store audit data every sixty days. To be sure, this limits the usefulness of these data for some purposes. For example, it does not facilitate day by day control of retail inventories. Nevertheless, the data is very useful for a large number of various short-run considerations and, in addition, is of considerable value in the formulation of long-term policy. This attitude would seem to reveal that executives tend to give undue weight to the short-run. Furthermore, the availability of these data, as explained in previous paragraphs, serves to enhance this tendency.

Attention to short-run considerations is not bad in itself. Short-run changes in market position are important. What is unfortunate is that attention to short-term problems tends to divert attention from long-run policy considerations and, at the same time, often makes the subscribing firm less able to conduct a long-run marketing policy effectively. These data reveal changes which have taken place in the position occupied by a firm's product in the market. It is likely that some change will be revealed each time reports from these services are received. If these changes are unfavorable, then there is likely to be an attempt to gain back what has been lost. It is usually deemed essential that the market position of a brand at least be maintained. If done wisely and, probably, with restraint, these actions to recoup lost ground may be desirable. However, if this attempt is made by trying to regain, individually by areas, slight losses which might have been suffered, there is danger that all promotional ammunition may be used in fighting minor skirmishes, and no funds will remain to finance the big push forward. In other words, a well-coordinated, long-range

promotional program may become impossible because of the expense of a multitude of minor promotional efforts.

Above all else, the effects produced by use of retail store audit and consumer purchase panel data are conditioned by the effectiveness and influence of the marketing research department within the subscribing firm. It is usually the marketing research department which receives these data, interprets them, and decides upon how they will be used. The marketing research departments of many firms are poorly staffed, limited in authority, and lacking in influence upon top management. When such a situation exists, the influence of these data upon the efficiency of selling effort must be limited. This condition is, of course, subject to change. Recent trends in the growth of marketing research indicate that this will become less of a limiting factor as time passes.

Reliability of These Data

It is obvious that the effect which the use of these data has upon the efficiency of selling effort of subscribing firms depends upon how "good" these data are. They may provide complete facts, or only a part of the facts. They may give correct information or misleading information. Therefore, it is essential that the reliability of these data be fully investigated before conclusions are drawn concerning their net effect on the efficiency of selling effort.

The ultimate test of the reliability of any research method is the degree to which data provided by it correlate with actual fact. To determine the reliability of data provided by the Nielsen retail store audit and the consumer purchase panel of Industrial Surveys, their figures should be compared with actual sales figures. This cannot be done. The actual sales figures essential to this comparison do not

exist. There are a number of reasons for this.

Total sales figures for many individual products are not reported. Government publications, which would seem to be the most logical source of such data, generally report production figures rather than sales figures. Sales figures which are reported are likely to be factory sales, which cannot be expected to agree with consumer sales for reasons cited below. In addition, government figures are so infrequently reported that what value they do have is further limited. Trade associations sometimes have such data. Usually, however, these data relate to fields other than the ones in which Nielsen and Industrial Surveys figures are most commonly used, namely, foods and drugs. Also, trade associations are reluctant to divulge such information if they do possess it.

If total sales figures were available, there is still the all-important problem of determining the portion of total sales which should be reported by the retail store audit and the consumer panel methods. It was noted above that the retail store audit measures only sales accomplished through particular types of retail stores and that the consumer purchase panel data reflects only purchases by individual families. For almost any product, these markets account for only a portion of total sales. There is no breakdown of total actual sales to show movement of a product into these areas in contrast to sales to industrial and institutional buyers.

The party best able to prepare an estimate of the reliability of the data of these two services is the subscribing firm. The users of these data have both the figures provided for their products by these services and their own data on factory shipments. They are in a better position to estimate the percentage of their sales which goes through

each of the various types of retail outlets, or which go to the ultimate consumer market rather than the industrial or institutional markets. Perhaps many firms do attempt, in a general sort of way, to determine how the data of these services compare with their own estimates of their sales to each of their several markets. But, with uncertain data on sales to each consuming market, which they can compare with the figures reported by these services, they usually do not carry the project through, seldom get down to precise figures, and are most unwilling to publish results they do get. There is but one known case of a user of the information provided by these services who made such a study and divulged some of the calculations and findings. Mr. John S. Monroe, Sales Analyst of General Mills, Inc., made studies of the reliability of the data provided by Nielsen and Industrial Surveys and reported some of his findings in a number of addresses to various groups.[1]

Factory sales records of General Mills, Inc. for a period of seven years were used by Mr. Monroe for comparison with sales volume data reported by Nielsen and Industrial Surveys. It was definitely known that so much merchandise had left General Mills factories. There was no certainty, however, concerning how much of this merchandise had actually gotten into the hands of ultimate consumers, and how much had gone to expand trade inventories. Furthermore, there was no exact knowledge of the portion of the company's total sales which went to such institutions as restaurants, hotels, etc. From various sources it was possible to acquire sufficient data to make possible a fairly good estimate of changes which had taken place in trade inventories

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[1]The following discussion of General Mills' determination of the reliability of these data is based on several speeches by Mr. John S. Monroe, Sales Analyst of General Mills, which will be cited individually in subsequent footnotes, and on a personal interview with Mr. Monroe.

and the percentage of total sales which were made in the ultimate consumer market. It must be emphasized that the data resulting from this procedure are only estimates. Too great reliance cannot be placed upon them. However, equal stress should be placed on the fact that there are no better figures with which the information provided by Nielsen and Industrial Surveys can be compared. This comparison brought General Mills to these conclusions:[1]

Over a seven-year period, Nielsen has:

(1) Overstated grocery store sales of one product by 0.385%.

(2) Understated grocery store sales of another by 5.3%.

(3) Understated grocery store sales of two others by 9.0%.

(4) Understated grocery store sales of a fifth by 6.5%.

Industrial Surveys data have existed for a much shorter period. Consequently, it is more difficult to estimate the quantities which it should have reported. Nevertheless, such an estimate was made and it was concluded that Industrial Surveys' consumer panel data:

(1) On one product, had understated consumer purchases by 1.5%.

(2) On four related products, had overstated consumer sales by 17.4%, 18.6%, 19.3%, and 20.1%. It was noted that these products were seldom bought by the less literate people of certain geographical sections.

(3) On two other products had overstated consumer sales by 7% and 9%.

Because of the nature of this determination of reliability, little weight can be placed on the smaller errors which were revealed, such as

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[1]The following data are taken from an address by John S. Monroe, Sales Analyst, General Mills, Inc., at the Winter Conference of the American Marketing Association, New York, December, 1949.

the understatement of grocery store sales by Nielsen of 0.385% on one product. The errors of greater magnitude have more significance. Even so, it should not be concluded that these marketing research methods are so low in reliability that other techniques should be substituted for them. As marketing research methods go, the reliability of Nielsen and Industrial Surveys figures is high. For example, the single consumer interview method, in which people are asked how much of a particular product they bought during a certain past period, usually provides very erroneous returns for such products as groceries and drugs. Consumers simply cannot accurately recall past purchases. A comparison of Industrial Surveys data with figures gained by the single interview technique for a few products looks like this:[1]

	Packages per 1,000 Families	
	Interview	Panel
Product A	395	80
Product B	464	160
Product C	414	40
Product D	625	125
Product E	139	37
Product F	417	302

Although the retail store audit and consumer purchase panel methods of marketing research possess greater reliability than many other types of marketing research, they are far from perfect. Why are the figures they report no more reliable than they are? The answer to this question is to be found, in all probability, not in one factor, but in many. There are a few considerations, however, which are of primary significance.

The problem of developing a sample of adequate size which can still be operated at a reasonable cost is faced by both services. This

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[1] Ibid.

factor is especially important with respect to sub-samples, which are often of more use to subscribing firms than national data. It is important, in the case of the retail store audit, that stores going into the sample be so located that auditors can follow a regular route in collecting their data. This places some limitations on the randomness of the sample. Of greater importance, probably, is the fact that the samples employed must be based largely on data which is often too old to be reliable. One company reports that Nielsen figures for their products were almost equal to factory shipments for certain products back in 1942, but have been falling further and further below them since that date. They feel that this is due to the fact that the Nielsen sample is still based on the 1939 census, although there have been drastic shifts in population and in the retail structure, especially in the growth of supermarkets. As a consequence, large sales are being made through stores which have small weight in the sample.

An important limitation on the reliability of the Nielsen Food Index store sample is the exclusion from it of the three largest food chains, A & P, Safeway, and Kroger, which together account for nearly 40 per cent of all chain store volume. Nielsen tries to compensate for this by choosing other chain outlets for inclusion in the sample which are nearby and similar to the retail units of the non-cooperating chains. This might be a fairly adequate makeshift in most cases, but it is highly doubtful that it provides accurate data in those instances where the private brands of the aforementioned chains are very popular, as is the case for coffee, salad dressings, canned goods, etc. In those instances, the chain outlets substituted in the sample for the retail units of the three large chains probably have a much larger percentage of their sales in national brands than would be true in the non-cooperating chains.

There are a number of obstacles to the achievement of reliability for consumer purchase panel data. There is doubt that a true cross section of American families cannot be induced to participate in such a panel. Industrial Surveys claims, however, that over 90 per cent of a cross section of families will participate. A problem does arise in getting reports from illiterate families, but it is estimated that they account for less than 1.5 per cent of the value of the goods for which Industrial Surveys provides information.[1] There is also the problem of the "conditioning effect" which participation in such a panel might produce. Does the panel participant tend to buy better-known brands, higher or lower priced goods, etc., just because he is reporting his purchases? Habit weighs against this, and possibly it tends to prevail in the long run. There is also the mortality problem. How can families which drop out of the panel be replaced by identical participants?

How accurately do the family participants in a consumer purchase panel report their actions? There is undoubtedly a tendency toward the omission of some purchases. Industrial Surveys has attempted to find out the magnitude of these omissions. By comparing the data gathered through inventory checks made by field investigators in the homes of panel members with diaries submitted by these families, it concluded that 97.1 per cent of all purchases which should have been reported were included in the diaries.[2] Underreporting was significantly greater for personal care items purchased by individual family members, and is probably still higher for products consumed outside the home. Many of the charges of inaccurate reporting are leveled at the practice of

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[1]Samuel G. Barton, "Unsolved Problems of Consumer Panels With a Report of Some Progress to Date Toward Their Solution," Proceedings of the American Marketing Association Spring Conference, June 8 and 9, 1944, p. 11.

[2]Ibid., p. 23.

submitting monthly reports. It has been demonstrated that weekly reports provide much more accurate information.[1] Industrial Surveys Company now requires weekly reports from its panel members.

Thus, it is not possible to conclude that the retail store audit method and the consumer purchase panel have a certain specific degree of reliability, nor is it possible to conclude that they are as near perfection as possible. It appears to be true, however, both from what has been said here and from the popularity which both of these services have come to enjoy, that these two marketing research techniques exceed in reliability many research methods currently in use in the marketing field.

Summary

The retail store audit and consumer purchase panel, like all other marketing research methods, are tools of business management. Their function is to provide knowledge on which decisions relating to the marketing of products can be based. If they serve this function effectively, they result in an increase in the efficiency of selling effort among subscribing firms.

These data make possible an increase in the efficiency of selling effort in many ways. They facilitate the determination of the correct quantity to produce, aid in the allocation and formulation of promotional effort, make pricing a more effective sales tool, aid in the selection of distribution channels and make possible greater reliance on indirect, lower cost channels of distribution.

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[1]Harrie F. Lewis, "A Comparison of Consumer Responses to Weekly and Monthly Purchase Panels," The Journal of Marketing, Vol. XII, No. 4 (April, 1948), pp. 449-454.

Because use of these data makes a seller's promotional efforts more effective, a stronger demand among consumers for his products will result. This, in turn, serves to enhance a seller's control over the marketing of his products. It gives him greater control over dealer margins, outlet selection, resale prices, and promotional efforts of middlemen. Effective promotion also serves to increase the elasticity of primary demand, thus making price reductions more effective as a sales tool.

Some of the effects produced by use of these data may serve to limit or reduce the efficiency of selling effort. Because these data provide firms with knowledge of what their competitors are doing and with information which aids them in meeting competitive action, retaliation is a constant threat to the effectiveness of any competitive action. The existence of this threat of retaliation may cause firms to withhold action in the first instance. This would result in a stagnation of selling effort and a consequent decline in sales efficiency.

Some of the subscribers to these data make little use of them. Under such a circumstance these data cannot greatly enhance selling efficiency. Other subscribers tend to "over-use" these data, taking retaliatory action as a result of minor, short-run changes in market position. Such attention to short-term problems tends to divert attention from long-run policy considerations.

Although a precise determination of the reliability of these data is not possible, available evidence indicates many weaknesses in the information provided. Obviously, to the extent these data are incomplete, erroneous, and misleading, reliance upon them does not increase the efficiency of selling effort.

CHAPTER V

BROADER ECONOMIC EFFECTS

This chapter is, in a sense, a continuation of the previous one. It is concerned, as was the last, with economic effects resulting from the availability and use of retail store audit and consumer purchase panel data. In some respects, however, it is different. The last chapter dealt with effects which are primarily realized by the individual firms subscribing to these data. This chapter is concerned with the effects of these data upon the economy as a whole. Of course, these two types of effects cannot be clearly separated. The effects upon one are, to some extent, the same as the effects upon the other. Also, effects upon the subscribing firm help to produce effects upon the economy as a whole, and vice versa. Such effects upon subscribing firms, for example, as a tendency to place greater emphasis on non-price competition and to withhold competitive action obviously have profound effects upon the general economy.

The present chapter will treat at some length the following effects which are derived from the availability and use of these data. First, the impact of these data upon the concentration of economic power will be examined. Second, an attempt will be made to determine if these data tend to produce a uniformity of action among firms subscribing to them. Third, the ways in which the availability and use of these data effect changes in the nature of competition will be considered. Fourth, we shall try to determine the effect of these

data upon the marginal efficiency of capital. Last of all, the ways in which these data effect the possibility of economic planning will be covered. Some of these are current effects. Most of them are effects which will not be realized to any great degree until there is a further and extensive growth in the use of these data. The rapid growth of marketing research in the past provides reason to believe that this growth will take place.

Concentration of Economic Power

Only relatively large firms use retail store audit and consumer purchase panel data. It is unlikely, furthermore, that there will be a substantial change in this situation in the immediate future. Industrial Surveys Company has but one subscriber with annual sales of less than $5 million.[1] There are only two subscribers to A. C. Nielsen data within this size catagory.[2] The median sales volume of subscribers to each of these services is over $200 million per annum.[3] Although these figures are of very limited reliability, they are sufficiently reliable to justify the conclusion that firms subscribing to these data are much larger than the average manufacturer, whose average annual sales is only $657,000.[4]

These data provide the firms which make use of them with a competitive advantage. The proof of this exists in Chapters III and IV of this dissertation, where the uses of these data and their effects upon the individual firm were fully covered. Further evidence of the exist-

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[1] See Table 1, p. 41.

[2] See Table 2, p. 42.

[3] See Table 3, p. 42.

[4] Ibid.

ence of a competitive advantage for firms using these data is suggested in Figure 18. In this chart is depicted what the A. C. Nielsen Company calls "the typical 2-year sales record" among its clients.[1] Should this effect actually derive from the use of these data, economic power will obviously tend to become centered in the hands of a smaller number of larger firms. The existence of this possibility suggests for our consideration the following hypothesis: Will the availability and use of these data lead to an increased concentration of economic power?

The circumstances surrounding use of these data are such that (1) only large firms use them, and (2) these firms gain a competitive advantage from such use. An increase in concentration of economic power must result from such a situation unless the underlying reasons for its existence can be removed. Before we can conclude, therefore, that use of these data under present conditions fosters the concentration of economic power, the reasons for this trend, and the possibilities of removing these reasons, must be considered. Each of these reasons will be considered in turn and the possibility of removing it explored.

Reasons for Limited Use

The use of retail store audit and consumer purchase panel data is limited to relatively large firms for several reasons rather than just one. The reasons cited below are probably the most important of those which exist.

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[1] Advances in Scientific Marketing Research (Chicago: The A. C. Nielsen Company, 1944), p. 32. The sales trends revealed in Figure 18 must be viewed warily. Nothing is known of the number of firms included in the sample used. Many factors other than the use of these data may account for these trends. Users of these data may be the better companies in each industry, and their competitive position may have improved greatly during this period even had they not used these data.

PROGRESS OF NIELSEN INDEX USERS

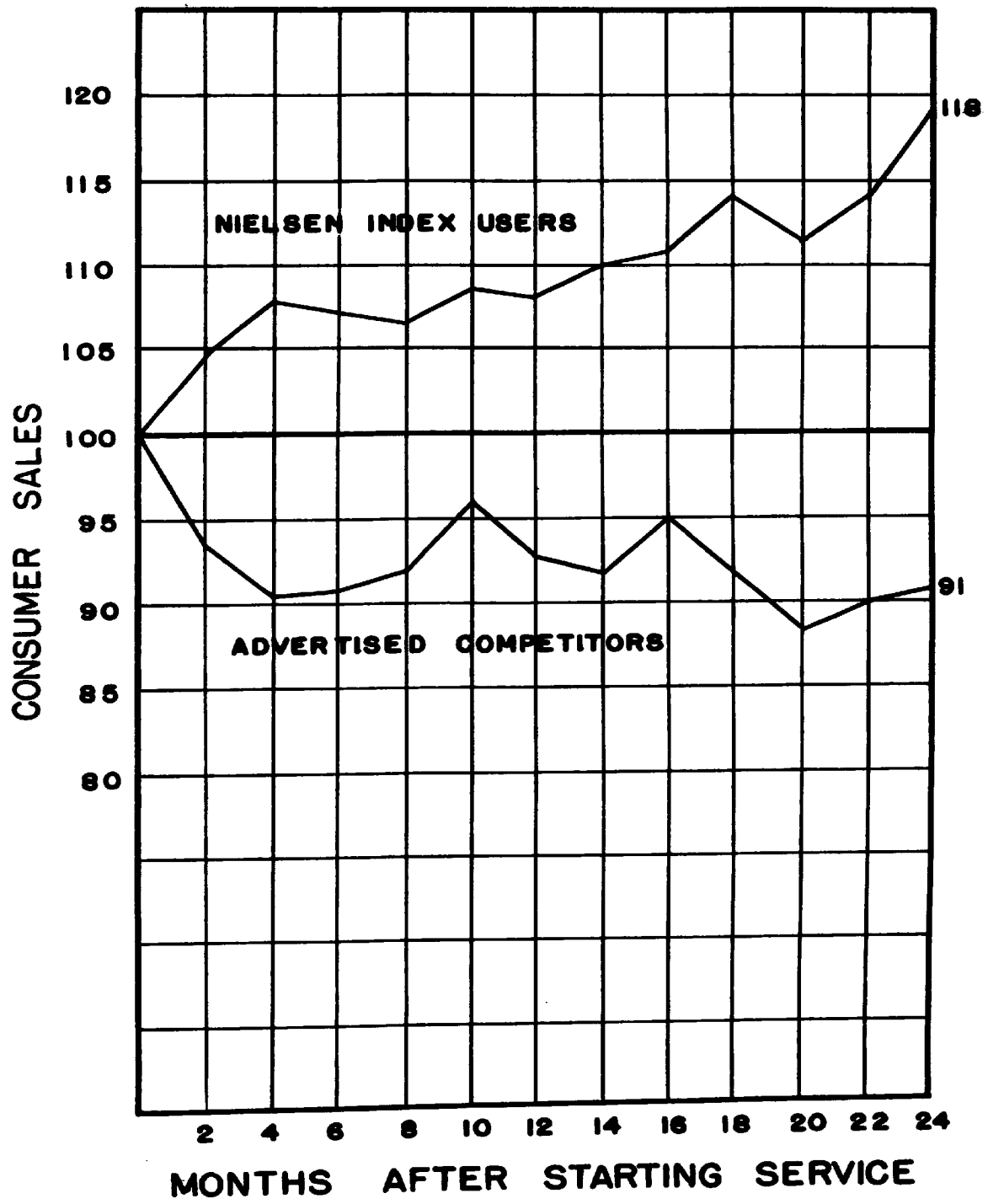


FIGURE 18

SOURCE: COURTESY A. C. NIELSEN COMPANY

1. High cost. The cost of these data to subscribing firms is a major reason for their non-use by small firms. Consumer purchase panel data of Industrial Surveys Company costs anywhere from $1,200 to $2,400 per monthly report.[1] For retail store audit data of the A. C. Nielsen Company, subscribers pay anywhere from $1,200 to $8,300 per bi-monthly report.[2] The cost of these data varies with such things as the number of brands (his own and competitors') a subscriber wants checked, the frequency of purchase for the type of product concerned, the amount of information desired, and the sales volume of the client. The cost of these services per dollar of sales for small clients, however, is much higher than for large subscribers. This high cost discourages the employment of these data by firms having a moderate or small volume of sales. It might be argued that the cost of these services, even to small firms, will be more than compensated for by the increased efficiency of selling effort which they make possible. In many instances this might be true. Nevertheless, the cost of these data is an important reason for small firms not using them. The definiteness of their cost, in contrast to the indefiniteness of improved selling efficiency resulting from their use, discourages small firms from deciding to employ them in the first place.

2. Lack of appreciation of value. Small firms do not appreciate the value of these data. In fact, the vast majority of small firms have never heard of these services. However, even should they know of these services and the data provided by them, it is unlikely that they would seriously consider the use of them. Small concerns tend towards

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[1] This information provided by Industrial Surveys Company.

[2] Business Week (April 29, 1950), p. 65.

more informality in management and less use of formal controls.[1] The small firm is likely to be dominated by an individual who is impatient of restrictions upon his freedom, who is by nature accustomed to taking long risks without the benefit of factual data. It is, therefore, not in the nature of things for small firms to subscribe to these data.

3. Inability to use effectively. There is reason to doubt that small firms are able to make effective use of retail store audit and consumer purchase panel data. Small firms typically do not possess personnel trained in the interpretation and application of marketing research data. Generally speaking, unless a business concern possesses a well-organized marketing research department which is competently staffed and which exercises substantial influence upon management, there is reason to doubt that subscription to these data would be wise. The existence of marketing research departments among large firms is limited. Among small firms such departments are virtually unknown.

There is another reason why small companies cannot use these data effectively. Both the A. C. Nielsen Company and Industrial Surveys Company provide data on the national market. Most small firms have local or regional markets. Both marketing research services will provide regional data, but the regions for which they are prepared to provide data usually do not conform to the market of the potential user of these

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[1] "The small enterprise that is short on management guidance may be so because of the psychological bent of the small-business owner. He has chosen to be his own boss partly because he wants things his own way and is often impatient of formal controls. He has confidence in his own ability. By temperament he would rather find his own way to success by trial and error than accept standardized guideposts to a surer path. Disciplining of his operations appears as red tape, hemming him in and reducing the flexibility that he deems vital. That may be only another way of saying that he has not been effectively exposed to the kind of counsel that he could appreciate as helping to remove obstacles from his path, make his efforts more fruitful, and free him for more rewarding exercise of his initiative." A. D. H. Kaplan, Small Business: Its Place and Problems (New York: McGraw-Hill Book Company, 1948), p. 106.

data. The A. C. Nielsen Company offers regional data for nine separate areas, Industrial Surveys for six. Variety in the regions served by business firms is, however, almost infinite. Also, as was discussed in Chapter IV, there is doubt that regional data provided by these services are sufficiently reliable for many potential uses. Lastly, the cost of regional data offered by these services is proportionately higher than the cost of national data.

4. Less need of these data. Small firms probably have less need for the type of information provided by the retail store audit and consumer purchase panel methods of marketing research than do larger producers. The small concern is likely to be in much closer contact with its market. In most cases it distributes its products over a relatively small area. It knows the area intimately. It knows who buys and who does not buy its products. Because of closer contact with its market, it understands the nature of that market. The large firm, on the other hand, is likely to have largely lost contact with its market. It possibly sells its products through extended channels of distribution, and sometimes does not even know who are the ultimate consumers of its products. It requires marketing research to close this gap which has developed between producer and consumer. The use of these data by large firms, then, might be looked at as a defensive action. It is designed to overcome a disadvantage which large firms have relative to small firms with respect to market knowledge. To the extent that this explains the restriction of the use of these data to large firms, these data should be viewed as something which aid large firms in overcoming a disadvantage rather than as something which gives them a competitive advantage.

Consequences of Limited Use

If the above reasons are valid, then extensive use of these data by small firms is not to be expected. They will not use them because they are too costly, because they do not appreciate their value, because they cannot use them effectively, and because they have less need of such information. If these data foster a more rational and, consequently, more efficient marketing process, then large firms derive a competitive advantage from their use which, in turn, will lead to a greater concentration of economic power.

This conclusion cannot be countered by arguing, as was done above, that small firms have less need of these data. This is undoubtedly true, but it must also be recognized that large firms have many other advantages relative to small firms which make them powerful competitors. For example, they are able to derive great benefits from an extensive division of labor and from the fuller use of fixed assets. In the absence of retail store audit and consumer purchase panel data, they were able to compete very effectively with small firms. Their effective use of these data now removes, to a degree, one of the relative advantages possessed by small firms and, consequently, weakens their competitive position. The result must be an increased concentration of economic power in the future.

Government Provision of these Data

It has been suggested that if the restriction of these data to large firms tends to increase the concentration of economic power, then the government should counteract this trend by making these data available on a free basis, such as is done for census data, to all business organizations. This constitutes, at the very best, only a partial

solution to the problem which exists. Provision of these data by government would remove the barrier to the use of these data imposed by their high cost. It is also possible that the government could provide more regional breakdowns of these data than is now being done by private marketing research firms, thus making them more useful to firms which have only regional markets. On the other hand, provision of this service by government will not, ipso facto, create among small firms an appreciation of the value of these data, nor will it overcome the fact that small firms are not equipped to make effective use of such data. As one writer has put it: "Small businessmen are usually far from appreciating the uses to which information supplied by government agencies can be put."[1] To merely make these data available is not enough. The government would have to go much further. It would be necessary that small businessmen be educated as to the value of these data and instructed in their use. It is doubtful that the government could do this effectively. Certainly they have not achieved wide use of the data which they already provide among small business firms.

There are still other factors which suggest that it would be unwise for government to provide such a service. First, the value of these data derives largely from the fact that they provide information concerning individual brands on the market. Government, in order to provide information of comparable value, would have to do likewise. Private research organizations need gather information only about brands in which their clients are interested. A public agency could not very well discriminate by providing information on some brands but not on others. It would have to provide data concerning at least hundreds of thousands of branded products. The costs would be staggering and, worst of all, most

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[1] A. D. H. Kaplan, Small Business: Its Place and Problems, op. cit., p. 132.

of this information would serve no purpose. It would not be used to advantage by business firms. Also, the private marketing research firms now providing these data offer many special information services to their clients. A government agency, large and unwieldy, probably could not do this.

Secondly, there is danger that government provision of retail store audit and consumer purchase panel data would lead to stagnation in the development of marketing research techniques. At the present time there is strong competition among the major research firms providing these data. Although the service offered by the A. C. Nielsen Company and Industrial Surveys Company are not directly comparable, there is sufficient overlap in the data they provide that active rivalry for clients takes place. This rivalry stimulates the development of better techniques. Progress in the development of marketing research technique by each of these research agencies has been rapid. The government, having no direct competition, would not be so stimulated to improve its methodology.

Government provision of this information might hinder competition in another, but more remote, sense. Competition in the procurement of market information among business firms is an important aspect of business rivalry. So, also, is competition in the interpretation and use of these data. If government assumes the task of gathering market information on a broad scale, and perhaps goes even further and aids business in the interpretation and use of such information, one of the grounds for effective competition among business firms is removed.

It appears, therefore, that the restriction of these data to large firms may serve to give large firms an advantage relative to small firms, and that free provision of these data by government would not

serve to change this situation. The only solution to this problem lies in educating small businessmen to the value of marketing research practices in general. Obviously, this is not an easy solution or one which promises to change this situation substantially in the foreseeable future.

Tendency Towards Uniformity of Action

Retail store audit and consumer purchase panel data are not restricted, in general, to one subscriber per industry. Such exclusive contracts are offered by both the A. C. Nielsen Company and Industrial Surveys Company, but the extremely high cost of such contracts to subscribers virtually prohibits their use. There are present certain considerations, discussed in the previous section, which limit the use of these data to larger firms. On the other hand, the use of these data has been growing rapidly. To the extent that the use of these data offers subscribing firms a competitive advantage, other firms are more or less impelled to also avail themselves of them. Today, almost every subscriber to these services has at least one competitor who also makes use of them. As the use of these data becomes more common, use of the same data by competing firms will also become more common. The existence of this situation suggests a very important question for consideration and analysis: Does the possession of the same knowledge by competing firms produce a similarity of action among competitors?

Uniformity of Action More Likely

Consumer purchase panel and retail store audit data provide competing firms with identical information concerning many factors which are of importance in determining the selling policies which they will follow. In the first place, these data help a seller to locate the market for a particular type of product. They reveal whether

potential buyers are located in the East or in the West, in urban or in rural areas, and so on. Also, they reveal the relative attractiveness of different parts of the total market. Will this lead competing firms to direct their efforts at the same markets and to place the same relative emphasis on different parts of the total market? Certainly, these data should produce a tendency in this direction. Each seller wants to avail himself of the most lucrative markets, that is, those markets which promise the greatest return per unit of cost. These data, by revealing these markets, help him to do this.

Consumer purchase panel data reveal to the several competitors within an industry the nature of the potential buyers for the products which that industry produces. They define the buyer in terms of age, sex, income, family status, and so on. Such knowledge is very useful in the direction of selling effort. It tells the seller what promotional effort should be directed at what buyers, at what time, and in what way. As a consequence, will the use of the same information by competitors lead sellers to direct their selling efforts at the same people, to time their promotional efforts alike, to use the same media, to charge identical prices, and to design and offer to consumers highly similar products? Will it, in general, cause sellers to use the same means to achieve the same ends? By revealing the same opportunities along these lines to different people, the likelihood that these different people will act similarly is enhanced. An analogy may be drawn between a group of sellers and a group of motorists. If each of ten motorists has no information concerning the best route to take in reaching a particular destination, the likelihood that each will take the same route is small. If each motorist should receive an identical map showing the best way of reaching the same destination, the likelihood

that each will take the same route is greatly increased.

Both retail store audit and consumer purchase panel data provide substantial information concerning the relative effectiveness of different channels of distribution in reaching the market for a product. The use of these data for this purpose was fully discussed in Chapter III. Will this lead each seller to use the same channel of distribution as his competitors? Again, the likelihood that this will happen is greater than if each seller either had no knowledge, or had different knowledge, concerning this factor.

It has been recognized that an increase in knowledge might lead to a greater uniformity of prices. This concept has been ably and fully enunciated by W. H. S. Stevens.[1] There is no reason, however, why an increase in knowledge should produce greater uniformity of action among competitors only with respect to price. Pricing is only one part of the total selling effort. It is logical to assume also that an increase in

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[1] "This vast mass of data continuously produced by industry, government, institutional and private research has laid the foundation for radical changes in the price making policies. The businessman ceased to be working as much in the dark as formerly in regard to supply, demand and price. Instead, he gradually became equipped through his trade association or otherwise with such tools as unit or dollar sales, plant capacities and capacities utilized, production orders on hand, received, shipped, and unfilled, inventories and stocks, costs of production and the like sometimes for his industry as a whole but frequently for his individual competitors. Through other public and private agencies there was gradually spread before him information on the national wealth and income, purchasing power, consumption, and standards of living, wages and employment, wholesale and retail prices, industrial productivity, and other similar and related data.

These developments produced two theories of business conduct, each of which greatly increased the importance of cost analysis in price policies. The first was an industry theory of greater price stability and uniformity, or perhaps more accurately, less price variability. The second was a theory of operating the industry in such a manner as to adapt the supply to the demand or production to the consumption." W. H. S. Stevens, "Effects of Cost Analysis on Prices," The Journal of Marketing, Vol. III, No. 1 (July, 1938).

knowledge will produce more uniformity in all selling practices and policies.

Now that the thesis that the possession of identical knowledge by competing firms leads to uniformity of action has been presented, our attention can be directed at the many factors which work against such a result. We will then be in a position to estimate the net effect of these data in this regard.

Factors Counteracting this Tendency

Working against the emergence of a high degree of uniformity of action from joint use of these data is the fact that each subscribing firm occupies a somewhat different competitive position. One subscriber may have 70 per cent of the market, an other 10. The dominant firm may be primarily concerned with holding his position, the smaller firm with improving his position. Methods pertinent to the one firm are not necessarily the same as those pertinent to the other. Past policies followed by a particular firm will help determine whether or not it should take a certain action. If it has created a high quality, prestige reputation for its product, it might be unwise to follow an aggressive price policy. Another firm may have been emphasizing a price appeal in the past, consequently would not hesitate to continue doing so. One seller may occupy a dominant position in one part of the market, say among high income groups, whereas his competitor is strong with another market segment. The same policies cannot be effectively employed by both firms. Each must adapt his policies to the market in which he sells.

It must be borne in mind that the knowledge provided by retail store audit and consumer purchase panel data is only part of the total knowledge possessed by subscribing firms. Typically, it is only one

part of the marketing research information which these firms possess. Subscribing firms carry on, in many instances, many marketing research activities of their own. Knowledge resulting from these individual research activities is not commonly held with competitors. Also, the manufacturer possesses considerable knowledge concerning the marketing requirements of his product which possibly does not originate in marketing research activities as such. He has knowledge of factors affecting its perishability, damage in handling, etc. This information, again not necessarily held in common by competing firms, may affect marketing policies employed. There is tremendous variation, of course, in the extent to which subscribing firms rely on these particular data. Some firms use them little, others employ them intensively. This should produce variety in actions taken by subscribing firms. Therefore, to the extent that there is variation in the extent to which retail store audit and consumer purchase panel data influence marketing decisions, there is also likely to be variation in marketing policies followed.

In many instances, these data reveal not one but several possible courses of action to subscribing firms. These various courses of action may be alternatives and, in addition, may in many instances be equally desirable. For example, these data might reveal that fuller cooperation of retailers might be gained by either granting retail dealers larger margins, promotional allowances, or free goods. Some subscribers might choose one of these courses of action, others another. As a consequence, each seller will not be acting as every other, and variety in competitive offerings will exist.

The fact that some subscribers to these data select a particular marketing policy makes alternative marketing policies more attractive than they would otherwise be to competing firms. If a substantial number of sellers use a particular type of advertising effort, the

effectiveness of that effort for each firm may be less than it would be if only one firm employed it. It ceases to provide the consumer with a reason for prefering one seller's product to that of another. It is probably to the advantage of a particular seller to do something which his competitors are not doing in an attempt to harness consumer patronage. The mere fact that he alone is using a certain promotional appeal increases its effectiveness for him. Certainly sellers are aware of this fact. They are continuously attempting to discover ways of being different, of being distinctive. Our concept of imperfect competition emphasizes the pervasiveness of this force. In the light of this, is it not likely that even subscribers to retail store audit and consumer purchase panel data will continue to try to do what others are not doing? In fact, these data should help convince them that overuse of one type of selling effort reduces the effectiveness of that selling effort for all parties employing it.

Retail store audit and consumer purchase panel data are neither perfect nor complete. The extent of their lack of reliability was discussed in Chapter IV. Furthermore, the imperfection and incompleteness of these data are recognized by subscribers to them. To the extent that doubt exists concerning whether these data are reliable indicators of the kind of marketing action to be taken, there is a likelihood that different courses of action will be followed. To the extent that these data do not tell a subscriber everything he needs to know, different types of selling effort are likely to be utilized. In many instances, these data indicate that something is wrong, but do not reveal to a subscriber just what the trouble is or what action he should take. For example, examinations of these data may show that a particular seller is losing ground in that part of the market composed of high income consumers. They do not necessarily tell him <u>why</u> he is losing out in

this market or how he can change this trend. These data have narrowed the field of desirable courses of action for him (i.e., those actions which will enhance sales among high income groups), but have not determined the precise steps which he should take. Because each subscriber must make decisions in this regard, variety in selling policies is likely.

Last of all, it should be noted that great differences exist among firms subscribing to these data to assimilate and use the information provided them. Some employ these data soundly, some unwisely. As a result, differences in competitive action should be forthcoming. However, even if all subscribing firms should decide to take the same general course of action, some will do so much more effectively than others. A difference in the effectiveness with which a selling effort is made constitutes, in a very real sense, a difference in competitive action.

Our conclusion, then, with respect to the effect of the availability and use of these data on the tendency towards uniformity of action among subscribing firms is this. First, such a tendency certainly will be present. When a group of business firms has the same information there is a greater likelihood that their actions will be uniform than if each firm has different information. However, because each subscriber to these data occupies a somewhat different competitive position, because these data constitute only a portion of the total knowledge on which business decisions are based, because several equally desirable courses of action are often revealed by these data, because it is to each seller's best interest not to duplicate selling policies of competitors, because these data are both imperfect and incomplete, and because there exist differences in the ability with which these data are used, this trend

toward greater uniformity of action by competing sellers should not be cause for alarm. In fact, the good produced by these data is certainly not counterbalanced to any great degree by the presence of this effect.

Change in Nature of Competition

The general availability and use of retail store audit and consumer purchase panel data, it was stated in Chapter IV, tend to create among subscribing firms a fear of retaliation to competitive efforts. As a result of this fear of retaliation, it is logical to expect that many firms subscribing to these data will withhold action which would otherwise be forthcoming. This tendency to withhold action, however, is not quite as simple in its nature or in its effects as is likely to be assumed. The nature of this withholding tendency is complex, and its effects are far-reaching.

Withholding of competitive action because of a fear of retaliation is likely to be most pronounced in the field of price competition. It is in this area that moves of competing firms can be met most quickly, and most effectively. This effect of knowledge upon price has sometimes been recognized.[1] Information of many types has been disseminated by the federal government, trade associations, and private research agencies. Many of these increases in business knowledge contribute to a reduction in price variability among competing firms.

Fear of retaliation by competitors does not always deter a seller from reducing his price. A seller may reduce price, even in anticipation

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[1] "As businessmen become more educated and more intelligent, price variability within any industry inevitably tends to be reduced. For example, the effect of adequate cost accounting alone in reducing such variability is almost incalculable." W. H. S. Stevens, "Federal Price Legislation," The Journal of Marketing, Vol. 1, No. 4 (April, 1937), p. 332.

of a corresponding price reduction by competitors, if he believes that the lower price will bring forth a sufficiently increased total demand to make it worth the reduced revenue per unit. Paradoxically, it is the larger firms in an industry, those which have the greatest degree of monopoly power, which are most likely to reduce price in order to increase total demand. Large firms tend to be more aware of, and more limited by, the behavior of the total market for a product. Small firms tend to think more in terms of taking business away from a competitor. Retaliation to a price cut would, of course, make that price cut relatively less effective in achieving this objective. Nevertheless, if large firms often do find it to their advantage to reduce price, the reduction in price variability produced by these data will not always serve to prevent price reductions. Also, reduced variability in price does not mean that demand has become less elastic with respect to price. It merely means that sellers tend to employ other competitive tools more intensively.

Retail store audit and consumer purchase panel data are more likely to cause sellers to refrain from making price reductions than from engaging in the various forms of non-price selling effort. This is true because of the greater possibility of differentiating non-price methods and because of the time lag involved in retaliation. It was argued in Chapter IV, however, that these data cause sellers to withhold non-price competitive action also, but to a lesser degree. These data bring about this reaction by enlightening sellers concerning what their competitors are doing, by enabling competitors to measure the effects of one seller's actions, and by providing them with the information necessary for effective retaliation. Consequently, we are concerned here with a twofold effect of the availability and use of these data. First, they produce a reluctance on the part of sellers to vary price.

Second, they discourage sellers from engaging in non-price competition of a type which can be easily duplicated by competitors. It is quite possible that these data may prompt much stronger competition on those grounds where, even in the presence of these data, immediate and exact retaliation is difficult.

A reduction in the extent to which sellers vary price in order to influence the sale of their products does not necessarily mean a net reduction in the amount or effectiveness of competition which exists.[1] Competition consists of rivalry among producers for the patronage of consumers. The basis of this rivalry might be anything which an individual seller thinks will make his offer more attractive to buyers than the offers of competitors. However, the effect of knowledge upon the withholding of competitive action is not limited to price competition alone. It extends to the general field of non-price competition as well. But, there is tremendous variation in the extent to which different forms of non-price competition are subject to this effect. Effective retaliation is much more likely with respect to some forms of non-price competition than others. Retaliation, in the presence of these data, will be most likely for such things as advertising, free-deals, adjustments of dealers' margins, and so on. Effective retaliation in the

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[1] "Lack of price variability is an indication of a change in the character of competition. It is cost accounting plus the ever increasing comprehensiveness of statistical and other information regarding fundamental factors of supply, demand, price, and market. All these things result in his competing in a different manner than formerly. If the competitive system is to be thought of only in terms of competitive prices between industry members, or, shall we say, absence of price uniformity between them; if this is the sole purpose, the end and aim of competition, there is good reason for the despair of many at the frequent ineffectiveness and inefficiency of that system. The other side of the argument is that competition has a deeper economic and social significance than the matter of price as such and that the latter, after all, is an incidental effect rather than a major objective." Ibid., p. 332.

short run is much more difficult with respect to such competitive elements as product development, the "quality" of service rendered to consumers, and such extremely intangible things as the personalities of people involved. For these things, precise duplication is probably not possible in any case, and a very extended time lag is likely to be present. It should be expected, therefore, that these data will produce a change in the nature of competition among sellers. They will lead to a relatively heavy emphasis on some forms of competition, and to a deemphasis of others.

A factor which provides a strong impetus to product development makes a major contribution to economic progress. The increase in the American standard of living which has taken place in past periods has probably been more a result of improvements in products which sellers offer on the market than a result of reductions in the cost of producing and distributing products in their original form. Clear examples of the effect of product development upon living standards are to be found in the case of automobiles, refrigerators, radio and television, and in plastics.

The Effect Upon Investment and Employment

Since the appearance of Keynes' General Theory of Employment, Interest, and Money[1] in the year 1935, there has been a continuous stream of writings and discussions about the validity of the theories there propounded. Considerable doubt has been raised concerning the validity of many of his ideas, and many of the theories of which he suggested only a bare outline have been greatly expanded and clarified. A central tenet of Keynes' theory is the principle that the general level of employment is largely determined by the level of net investment which exists.

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[1] J. M. Keynes, The General Theory of Employment, Interest, and Money (New York: Harcourt, Brace and Company, 1935).

Although this principle has been greatly refined in recent years, no great question has arisen concerning its fundamental validity.

In very broad outline, the thesis suggested in this section is directly based on this idea of Keynes and goes as follows. First, the general level of employment and, hence, of income, is determined by the level of net investment. Second, the level of investment is determined by the marginal efficiency of capital in conjunction with the rate of interest. Third, retail store audit and consumer purchase panel data tend to increase the marginal efficiency of capital. Fourth, the availability and use of these data, as a consequence, is a factor which tends to increase the general level of investment and employment. It is necessary that some qualifications to this general hypothesis be noted. This will be done later.

Of the principle that the level of employment is determined by the level of net investment, Keynes says:

> Unless the psychological propensities of the public are different from what we are supposing, we have here established the law that increased employment for investment must necessarily stimulate the industries producing for consumption and thus lead to a total increase of employment which is a multiple of the primary employment required by the investment itself.[1]

Total income produced is, of course, largely a function, at a given point in time, of total employment. Consumption is dependent, in large part, on the level of income and, therefore, on total employment. According to Keynes, the propensity to consume is relatively stable, and is determined by the level of income which prevails. Total employment and, hence, total income, depends on total effective demand, which is made up of two parts: consumption expenditure and investment expenditure. Because the propensity to consume is relatively stable, fluctuations in employment

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[1] Ibid., p. 118.

depend mainly on the volume of investment.

The volume of investment depends on the marginal efficiency of capital and the rate of interest.[1] The marginal efficiency of capital is the difference between the prospective yield of a unit of capital and the cost of supplying that unit. A businessman who is considering investing must weigh advantage against disadvantage. As a deterrent to investment there is the cost of "tying up" funds in buildings, inventories, and equipment. If the businessman borrows from an outside source, he must pay interest on the funds. If he uses his own funds, he loses the interest he might gain through lending. This is the cost of the investment. Set against this cost, as an incentive to investing in an asset, is the gross profit prospect throughout the life span of the asset. The residual which remains after operating costs, including depreciation, have been deducted from the total return, is known as the marginal efficiency of capital. Investors will wish to gain an interest in those assets whose marginal efficiencies are greatest relative to the interest rate, because net profit from the assets is the difference between their marginal efficiency and the interest rate. It should be noted that it is the prospective yield of an asset which determines its marginal efficiency. Hence, marginal efficiency is dependent on expectations, not on current realities except as they affect expectations.

If the marginal efficiency of capital is based on expectations concerning the future, then almost anything which affects those expectations will indirectly affect the marginal efficiency of capital. The general social atmosphere in which business operates may be hostile or friendly to business enterprise. Much legislation, even though its

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[1] Dudley Dillard, The Economics of John Maynard Keynes (New York: Prentice-Hall, Inc., 1948), p. 48.

purpose is laudable, serves to discourage business enterprise. It is not our purpose here to discuss all influences upon the incentive to invest. Our objective is much more modest. We want to merely isolate a few of the factors which help to determine the marginal efficiency of capital and show how the use of retail store audit and consumer purchase panel data, in turn, influence those factors.

A major influence upon the marginal efficiency of capital is the possibility of executing effective innovations.[1] An innovation takes place when a new product is introduced into the market, new production methods are utilized, new sources of raw material are developed, or a new organization of industry is set up.[2] Anything that increases the expectation of a successful innovation increases anticipation of a satisfactory yield. The more optimistic businessmen are concerning the chances of success of a venture, the higher the prospective yield of a given investment. It should be borne in mind here that the marginal efficiency of capital is the difference between the prospective yield of an asset and its cost. It is in this regard that retail store audit and consumer purchase panel data perform a very valuable function. These data serve to uncover opportunities for successful innovation and also help chart the course which will be most likely to lead to success in innovation. For example, these data reveal opportunities for innovation by showing sellers that certain areas of the total market for a product are not being adequately covered, or by demonstrating that present products or packages are not well adapted to consumer needs. Figure 15 in Chapter III illustrated a case where consumers preferred large size packages of

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[1] Theodore Morgan, Income and Employment (New York: Prentice-Hall, Inc., 1947), p. 104.

[2] Joseph A. Schumpeter, The Theory of Economic Development (Cambridge: Harvard University Press, 1934), p. 66; and Business Cycles (New York: McGraw-Hill Book Company, Inc., 1939), pp. 87ff.

a product, but the seller concerned was concentrating on the production of small size packages. This constitutes an opportunity for successful innovation by this manufacturer. In addition, these data increase the likelihood that an opportunity for innovation will be successfully exploited. Should the innovation consist, for example, of introducing a new product into the market, these data aid in selecting channels of distribution which will be most effective, in timing the introduction properly, in selecting the most effective type of promotion, and in choosing promotional media which will most effectively carry the promotional message to consumers. How these data serve in these respects was discussed at length in Chapter III, and need not be repeated here. Our conclusion, however, is clear. These data, because they increase the opportunity for successful innovation, also increase the marginal efficiency of capital and, indirectly, the volume of investment and the level of employment.

Another basic influence upon the marginal efficiency of capital is to be found in expected demand conditions.[1] The higher the expected demand for a product, the greater the incentive to invest in the production of that product. Retail store audit and consumer purchase panel data may give sellers reason to expect a larger demand than they would anticipate in the absence of these data. First of all, it helps them in determining the total demand which does exist. If they did not have these data, they may have assumed total demand to be much smaller. In the second place, these data enable a seller to alter demand by effective promotion of his product. They aid him in defining potential buyers and in changing the wants of those buyers. The increase in demand which is thus accomplished means an increase in the marginal

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[1]Theodore Morgan, Income and Employment, op. cit., p. 104.

efficiency of capital and, hence, in investment and employment.

There is a possibility that expectations tend to be more influenced by certainties than by uncertainties.[1] The one fundamental function accomplished by these data is the substitution of factual information about factors affecting the marketing of goods concerning which we could otherwise only guess. Consumer panel data reveal, for example, how many buyers of a certain type of good are in a certain age group, a certain income group, of a certain educational level, and so on. Although these data are not completely reliable, they provide a much higher degree of certainty to our information than would otherwise exist.

Although the availability and use of these data is likely to increase the incentive to invest because of the reasons mentioned above, there are several ways in which these data might tend to reduce the marginal efficiency of capital. First of all, these data might show the potential innovator that he will meet with stronger competition in the production and sale of a product than he had realized existed. Knowledge of this potential competition may discourage a businessman from taking steps which he would otherwise have made. This, of course, means a reduction in investment rather than an increase. Secondly, these data may show that an opportunity for investment which was thought to exist is really not present. Had these data not been available, the investment would have been made. In the presence of this information, it will not. Of course, had the investment been made because an erroneous

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[1] "It would be foolish, in forming our expectations, to attach great weight to matters which are very uncertain. It is reasonable, therefore, to be guided to a considerable degree by the facts about which we feel somewhat confident, even though they may be less decisively relevant to the issue than other facts about which our knowledge is vague and scanty." J. M. Keynes, The General Theory of Employment, Interest, and Money, op. cit., p. 148.

opinion of investment opportunity existed, the venture would not have been profitable. However, even unprofitable investment will, through the multiplier effect, increase employment and income. When a choice between sound and unsound investment exists, certainly the sound investment is to be preferred. These data, by revealing opportunities for sound investment, may stimulate investment and, hence, employment and income sufficiently that unsound investment can justifiably be avoided.

In Chapter IV it was argued that the availability of these data to competing firms creates a fear of retaliation among sellers. This fear of retaliation may serve to discourage investment. It may lead a potential investor to conclude that his competitors will be able to measure the success of his action and aid them in duplicating his efforts. Such a reaction among competing firms would, of course, tend to increase the supply of the particular kind of asset concerned which is in existence. Obviously, the greater the quantity of any particular kind of capital good already in existence, the more the supply on the market of those products in whose making it figures. Hence, the lower their price and the less the yield to a unit of that kind of capital good.

Needless to say, it is not possible to determine with any precision the net effect of the availability and use of retail store audit and consumer purchase panel data upon the incentive to invest. However, as was explained in the previous section, this fear of retaliation is more likely to change the nature of competitive moves than to eliminate them. If this be true, then these data should serve to increase the marginal efficiency of capital and, consequently, the level of employment and income.

Effect Upon Economic Planning

All economic activity involves planning. As one writer puts it, "We describe the word 'planning' the complex of interrelated decisions about the allocation of our available resources."[1] In this sense, all economic activity is planning. This planning, or these decisions, might be accomplished in many ways. Someone, however, must decide what goods are to be produced, how those goods are to be produced, and how products are to be gotten to the ultimate consumer. There is great division of opinion as to whether this planning can be better done in a dispersed fashion, as is the case in a free enterprise economy, or by some form of central board, as is generally proposed by the advocates of a socialized economy. In either case, planning must take account of consumer demand if resources are to be used in a manner which will result in the maximum of utility. Landauer remarks as follows: "Since we want, as a rule, to give the consumers what they wish to have, we must find out their preferences."[2] This is, probably, the major problem faced by advocates of a centrally directed economy.

In a free market economy, production is guided by consumer preferences expressed through the price system. The question of whether production can be wisely guided in the absence of such a market has been intensively discussed in the recent literature on socialism. The usual suggestion is that an "artificial" market be substituted for the free market previously existing.[3] Prices would

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[1] F. A. Hayek, "The Use of Knowledge in Society," The American Economic Review, Vol. XXXV, No. 4 (September, 1945).

[2] Carl Landauer, Theory of National Economic Planning (Berkeley: University of California Press, 1944), p. 21.

[3] See A. P. Lerner, The Economics of Control (New York: Macmillan Company, 1947), Chap. 2; and Joseph A. Schumpeter, Capitalism, Socialism, and Democracy (New York: Harper & Bros., 1942), Chap. 16.

be tentatively fixed by the collective agency, and the managers of the individual plants would be expected to determine output and purchases of factors of production on the basis of these prices as if they were entrepreneurs acting under perfect competition. The suggestion that the collective agency serve as "price administrator" presupposes that it possesses the knowledge necessary to carry out this task. However, the peculiar character of the problem of a centrally directed economic order is determined precisely by the fact that the knowledge of the circumstances of which the collective agency must make use does not exist in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which many separate individuals throughout the economy possess.[1] It is in the solution of this problem that retail store audit and consumer purchase panel data serve to facilitate economic planning.

In discovering what products consumers want, and the manner in which they wish them to be offered, consumer panel data can be an invaluable aid. These data reveal the size of the total market for existing products, and isolate variations in consumer demand for products of a certain classification by sex, age group, income group, area, and so on. Consequently, it becomes known not only what the market in general wants, but what each consuming group wants (that is, of products already available in the market. These data do not reveal what new and different products consumers would want to have.) These data will reveal shifts in consumer preference both within a product class and among different classes of product. The rate of consumer purchase of each product on the market can be followed, and price changes necessary to move or conserve the available stock can be made. In addition, these data would

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[1] F. A. Hayek, "The Use of Knowledge in Society," op. cit.

aid the collective agency in determining appropriate sizes of packages, channels for the dissemination of information about products, and so forth. In short, these data would serve the collective agency charged with the direction of economic effort in much the same manner as they now serve private enterprise. There can be little doubt that central direction of the economy would be easier if such information were available than if it were not.

Retail store audit data can also be advantageously employed in the over-all direction of economic effort. They provide directly information about the size of retail inventories, and create the possibility of fairly accurately estimating the magnitude of wholesale inventories. Thus, they help in a determination of the supply of a product now on hand, which is essential information for the central planning agency to have. These data would enable the collective agency to study and evaluate various aspects of retail store operation, such as rate of stock turn, display and other promotional activities, extent of duplication in product offerings among stores, and so on. Such information would certainly aid any group charged with responsibility for the determination of distribution policies.

During the period of rationing of consumers' goods occasioned by World War II, the consumer purchase panel data of Industrial Surveys Company was used to facilitate some of the centralized direction of economic activity which occurred.[1] A major problem at this time was the determination and administration of point values used to control the purchases of rationed foods. At this time there was no background of experience upon which a rationing program could be planned and

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[1]The following account of the use of these data in this respect is adapted from Curtis C. Rogers, Applications of the Consumer Panel by Government and Marketing Executives (Chicago: Industrial Surveys Company), pp. 2-6.

operated. No yardstick was available for judging the change in point values necessary to influence consumer purchases by a certain desired amount. Consumer rationing had to build, in effect, its own experience. Serious mistakes could be avoided only by having current information on consumer purchases. Rapidly changing conditions in supply and demand required fast administrative action.

Take the case of canned peas as a typical example of how these data were used in the rationing of consumers' goods. The supply of this product available for distribution to civilians during the forthcoming year was determined by adding together the stocks of canners and wholesalers as of June 1 and the portion of the estimated production for the current year which was allotted to civilians, and subtracting therefrom an allowance for trade stocks at the end of the year. Because this product, as most other processed foods, is produced during only a short period each year, this stock had to last until the next year's production was available for distribution. The total available civilian supply, therefore, was divided into a monthly schedule based upon past trade experience. Throughout the year, the scheduled movement of canned peas was compared with actual shipments and with purchases at the consumer level, as revealed by consumer purchase panel data. In order to maintain actual movement of the product within the monthly schedule established, point values for peas were adjusted. If supplies were disappearing too rapidly, the point value was raised to retard this movement. If supplies were moving out too slowly, point values were lowered to accelerate the movement.

Conditions in supply and demand for peas changed very rapidly. Prompt reporting and rapid tabulation of data was essential to effective control. For example, point values for March had to be set on

on February 20th. It was found possible to have consumer purchase panel data available for this purpose through February 15th. These consumer purchase panel data were less than one week old when used.

Other examples of the use of consumer purchase panel data during the period of rationing of consumers' goods are available. The one cited, however, is sufficient to establish the fact that data such as these facilitate centralized direction of economic effort. That is the point which we have been trying to establish.

Effect Upon Business Cycles

Perhaps it would be better to say nothing concerning the affect of these data on cyclical movements in business activity, as their influence upon this phenomenon is, at best, relatively slight and, in addition, largely indeterminate. The causes of business cycles are extremely complex and, to a large extent, unknown. Retail store audit and consumer purchase panel data have no bearing on many factors which have a causal relationship to business cycles. In spite of this, it is interesting to note that there are several ways, though probably minor in importance, in which these data may serve to lessen somewhat the amplitude of fluctuations in business activity.

There is considerable support for the theory that overinvestment in plant and equipment is one cause of the business cycle phenomenon. One author makes the following statement: "An examination of depressions, however, points to overexpanded plant capacity and overproduction as a major, if not the ultimate or sole, cause of depressions."[1] Undoubtedly, this is a greatly oversimplified and grossly exaggerated view of the matter. However, to the extent that this is a causal factor in business

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[1] Lyndon O. Brown, Marketing and Distribution Research, op. cit., p. 18.

cycles, retail store audit and consumer purchase panel data serve to reduce its affect. These data give potential investors more reliable evidence of the amount of a particular product the market can be expected to take. Also, they reveal how a product should be marketed in order to make as full use as possible of the market potential which does exist.

Optimism and pessimism among businessmen, with rapid shifts from the former to the latter, are often suggested as important causes of business cycles. Keynes says:

> In the case of durable assets it is, therefore, natural and reasonable that expectations of the future should play a dominant part in determining the scale on which new investment is deemed advisable. But, as we have seen, the basis for such expectations is very precarious. Being based on shifting and unreliable evidence, they are subject to sudden and violent changes.[1]

These data permit expectations to be based on more reliable evidence than would be possible in their absence. Consequently, undue optimism, as well as undue pessimism, should be reduced.

Assuming that depressed business conditions already exist, these data may tend to reduce the duration of such a condition. We have stressed before that these data reveal sales opportunities. They may indicate that potential sales of a product are much better than would otherwise be assumed. Relatively untouched segments of the market may become apparent. Such information would, of course, serve as a stimulant to investment and, consequently, to economic recovery. It is conceivable that these data will show that demand is less than was expected, and thus serve to retard investment. During a depression, however, it is likely that businessmen will be much more pessimistic than is justified by the facts of the situation.

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[1] J. M. Keynes, The General Theory of Employment, Interest, and Money, op. cit., p. 316.

Summary

The increasing use of retail store audit and consumer purchase panel data can be expected to give rise in the future to several far-reaching economic effects. Among these economic effects are the following:

1. An increase in the concentration of economic power. Because these data are now used almost exclusively by large firms, and because such use increases the efficiency of selling effort among subscribing firms, large firms gain a competitive advantage relative to small firms. Provision of these data on a free basis by government would not solve this problem. The solution lies in educating small firms to the value of such information.

2. A greater uniformity of action among competitors. When several sellers possess the same knowledge they are more likely to act similarly than when each has different information. This effect should not be very pronounced because each seller occupies a somewhat different competitive position, these data constitute only part of the total knowledge possessed, there are differences in the ability to use these data, various courses of action of equal desirability may be suggested by these data, and because the mere fact that some firms do one thing makes it advantageous for other firms to do differently.

3. A change in the nature of competition. Because these data increase substantially the effectiveness of non-price competition, relative emphasis on non-price competitive methods among subscribing firms should be increased. Because the availability of the same data to competing firms produces a fear of retaliation to competitive effort, those forms of non-price competition where retaliation is more difficult are likely to increase in popularity.

4. An increase in investment and employment. Use of these data increases the marginal efficiency of capital and, hence, the incentive to invest. Employment and national income are functions of the level of net investment. Therefore, both investment and employment should be raised by use of these data. In opposition to this conclusion it may be argued that because of the fear of retaliation produced by these data, investment might be retarded. Also, availability of these data will discourage unprofitable investment. Even such investment has a favorable effect on total employment.

5. An increased ability to use central economic planning. These data provide extensive information about the ultimate consumer market and the middlemen who serve that market. Hence, their use facilitates the making of decisions relating to the allocation of resources among consumers.

6. A reduction in the magnitude of fluctuations in business activity. Use of these data reduces the likelihood of overcapacity in production facilities. Also, by substituting factual data for uninformed opinion, the existence of unwarranted optimism or pessimism about business opportunities is reduced. Both of these are accepted causes of business cycles.

It should be borne in mind that these effects are not readily apparent at present, but can be expected to develop as use of these data becomes more widespread.

CHAPTER VI

SUMMARY AND CONCLUSIONS

When conclusions are drawn for a study as broad as this, there exists a great danger of misunderstanding concerning them. This dissertation deals with a topic which it is difficult to delimit. Although an attempt has been made throughout to indicate clearly the specific nature and extent of each topic discussed, the great multiplicity of topics covered limits the effectiveness of this effort. In considering the conclusions which are drawn in this chapter, therefore, it is necessary to keep the following limitations of this study in mind.

First, it must be remembered that the two marketing research services which form the basis of this study are only one influence in many on business activities. Decisions of businessmen are prompted by many factors, among them such things as past company policy, industry practice, governmental attitudes, personality factors, and so on. It may be said that there is an implicit assumption throughout this study that all such factors are constant. Of course, this is very unrealistic. In addition, the centering of attention on the effects produced by use of certain marketing research data tends to magnify the importance of these effects relative to those produced by other factors present in the economy. It must be admitted that many influences upon our economy are probably more important than the ones covered in this study.

Second, in viewing the conclusions which follow, one must not lose sight of the limitations imposed on these conclusions by the nature

of this study. The marketing research data dealt with are used primarily by manufacturers of drugs, grocery, and household items. Conclusions concerning their effectiveness are applicable, consequently, primarily to producers in these fields, although many generalizations are possible. The firms using these data are firms which employ indirect channels of distribution. The nature of these data is such that firms which deal directly with retailers would gain much less from their use. Firms using these data are, of course, manufacturers rather than distributors. It is especially essential that this be borne in mind when reference is made later in this chapter to large firms and small firms. The small firms meant are small manufacturers, not retailers and wholesalers.

An extensive explanation of the reasoning by which the conclusions contained in this chapter are reached is to be found in earlier pages of this dissertation, not here. It has been considered sufficient here to very briefly state the steps involved in arriving at each conclusion. For a more extensive explanation of each of these steps, reference to earlier chapters is necessary.

Unfortunately, it must also be remembered in viewing these conclusions that none of them can be proved quantitatively. The nature of this study is such that reliance must be upon deductive reasoning.

Some Basic Questions

The purpose of this study has been to gain answers to many questions concerning the economic effects of two types of marketing research -- the retail store audit and the consumer purchase panel. By posing here the most important of these questions, and providing answers to them in terms of findings of this study, both an effective

summary of this dissertation and a statement of its major conclusions will be provided. Major questions concerning the economic effects of the types of marketing research with which this study is concerned are as follows:

1. Does the use of retail store audit and consumer purchase panel data lead to a more rational direction of economic effort?

2. What is the effect of these marketing research methods upon the nature of competition?

3. What is the effect of these marketing research methods upon the extent of competition?

4. How will the increasing use of these marketing research methods affect the problem of preserving a free enterprise economy?

These are questions of great fundamental importance with which this study deals. Also, these questions are broad enough so that answers to them, in effect, answer many minor questions as well concerning the economic effects of retail store audit and consumer purchase panel data. Therefore, each will be considered in turn.

More Rational Direction of Economic Effort

In a free enterprise economy we depend upon the decisions of individual businessmen for the direction of economic activity. The consumer serves as judge of their efforts. He either accepts or rejects their offerings, thus granting or denying to businessmen the success for which they strive. It should be clearly noted, however, that the consumer does not render his decision on how economic resources should be utilized until after production and distribution of a product have begun. Conse-

quently, there is great opportunity for the wasting of resources by businessmen if they place products on the market which consumers do not accept. Because economic resources have been misused, wanted products are either not available to consumers or are available to them in smaller quantities than would otherwise be the case.

A waste of economic resources occurs not only when unwanted products are produced, but also when too much or too little of a product is made available, when stocks of a product are not apportioned properly over the market, when improper channels of distribution are employed, when promotional effort is misdirected, and so on. Therefore, anything which gives producers more adequate information about consumers' wants, and the means of satisfying those wants, makes possible a more rational direction of economic effort.

The use of retail store audit and consumer purchase panel data results in a more rational direction of economic effort. It accomplishes this by helping to bridge the informational "gap" which exists between producers and consumers. Together, these data provide the producer with: (1) information about the nature and extent of his market, and (2) information concerning the means of reaching his market. Within the first of these categories is information concerning the characteristics of the buyer, such as his age, income, education, and so on, as well as information concerning the number of buyers and where they are located. Knowledge of the means of reaching a market is derived from information concerning channels of distribution and, promotional media and methods.

Knowledge of the nature and extent of a producer's market is more effectively gained from consumer purchase panel data than from retail store audit data. The latter do not identify the individual

consumer, nor do they provide information concerning the entire market. They relate only to the types of retail stores which are audited. Retail store audit data, however, give detailed information concerning the retail outlets through which many products are sold. Such information is not contained in consumer purchase panel data. Consequently, these two types of data are largely complimentary, rather than substitutional, and together provide the producer with the knowledge he needs to direct economic effort more rationally.

A more rational direction of economic activity benefits consumers in several ways, some obvious and some not so obvious. As pointed out above, it results in a more efficient use of resources. Effective use of retail store audit and consumer purchase panel data increases the efficiency of selling effort. It reduces the amount of input (selling effort) needed to achieve a certain output (dollar sales). This means an increase in the real income of consumers. They receive products better suited to their needs at a lower cost in terms of economic resources employed.

Effective use of retail store audit and consumer purchase panel data is likely to produce a higher level of consumer income in a more round-about way. The knowledge which these data provide businessmen should serve to increase the marginal efficiency of capital, that is, the difference between the prospective yield of a unit of capital and the cost of supplying that unit. These data make possible the more effective use of capital, thus increasing its prospective yield. An increase in the prospective yield of capital should stimulate investment, for the expected return has become more attractive. The general level of employment and, hence, of income, is determined by the level

of net investment.[1] As a result, effective use of these data raises the level of national income and, therefore, the plane of living of consumers generally.

It must not be concluded from what has been said that the availability of retail store audit and consumer purchase panel data assures a completely rational direction of economic effort. Such is far from being the case. First, these data are limited in reliability. There are imperfections in the samples used, errors are made in the compilation of the data, etc. Second, these data often are not used effectively. A well-organized and adequately staffed marketing research department within the subscribing firm seems to be essential to truly effective use. Some subscribing firms do not meet this requirement. Third, the vast majority of producers are not subscribers to these data. The direction of their economic effort is not made more rational, consequently, by the existence of these data. Fourth, these data are only one influence, among many, on the decisions of businessmen. With complete perfection of these data and their use, direction of economic effort would not be completely rational.

Change in the Nature of Competition

Widespread use of retail store audit and consumer purchase panel data is likely to produce a change in the nature of competition. The steps leading to this conclusion are: (1) Use of these data increases emphasis on non-price competition relative to price competition; (2) Use of these data increases the fear of retaliation to non-price competitive efforts; (3) Sellers will strive to compete on those grounds where retaliation is least likely.

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[1] J. M. Keynes, The General Theory of Employment, Interest, and Money, op. cit., p. 118.

Increased Emphasis on Non-Price Competition

The increasing use of retail store audit and consumer purchase panel data can be expected to cause sellers to emphasize non-price methods of competition more than they otherwise would. Because these data provide producers with substantial information concerning the market for their products, defining the market for them in terms of consumer characteristics, locations, etc., they enable these producers to employ non-price appeals more effectively than previously. Producers know more about what appeals to use and how to channel those appeals to consumers.

It is reasonable to expect that sellers will take advantage of any increase in opportunity to compete on non-price grounds. There exists a natural desire among them to break away from competition purely on a price basis. Price reductions can be met both more promptly and directly by competitors than can non-price competitive moves. As the effectiveness of any competitive move is reduced by such retaliation, it is logical to expect sellers to choose those competitive moves to which retaliation is most difficult. Consequently, as was shown earlier in this study, the existence of these data tends to stimulate the use of non-price competition.

Fear of Retaliation Under Non-Price Competition

Under oligopoly, sellers are likely to refrain from the use of price reductions as a competitive weapon because they expect, and can see the results of, retaliation by competitors. That is to say, each seller will consider the total effect of a competitive move before he makes it. An important effect of the use of retail store audit and consumer purchase panel data is the extension of this fear of retaliation to non-price competition as well. These data, in effect, serve as a

substitute for the "few firms" requirement of oligopoly. Knowledge of competitors' actions is derived from use of these data, rather than from the fact that there is a small number of competitors.

These data reveal to each seller what his competitors are doing, how effective their actions are, and, in addition, suggest how the moves of competitors can best be met. In the absence of these data, this was much more true of price competition than non-price competition. In the presence of these data, this same principle becomes applicable to non-price competition.

Likelihood of Retaliation Varies with Competitive Methods Used

The fear of retaliation to non-price competitive effort fostered by use of these data may cause sellers to either (1) withhold competitive action or (2) utilize competitive methods to which retaliation is most difficult. The first of these possible effects concerns primarily the extent of competition rather than its nature. Conclusions concerning the effect of these data on the extent of competition are drawn in the following section. Suffice it to say here that there is no strong reason for concluding that use of these data reduces competition. It is more likely to shift competition to grounds where retaliation is more difficult. Economic history supports this view. The relative absence of price competition among manufacturers of cigarettes has resulted in extensive reliance on non-price competition by that industry.[1] Price uniformity resulting from use of the basing point system, resale price maintenance, and other factors has caused sellers to turn to competition on other grounds.

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[1]Clare E. Griffin, Enterprise in a Free Society (Chicago: Richard D. Irwin, Inc., 1949), p. 284.

Competitive Methods Where Retaliation Least Likely

Retaliation is more difficult for some forms of non-price competition than for others. Retaliation is more difficult where (1) the ability to duplicate a competitor's effort is limited, and (2) where the time involved in duplicating a competitor's effort is great. These conditions are likely to hold to the greatest extent in the general area of product development. The development of new products, or new models of an established product, is an involved and time consuming task. Extensive technical and market testing are involved. Lengthy periods of research are required. Patents may be acquired which preclude copying. Consequently, it can be expected that competitive efforts, in the presence of these data, will be more along such lines.

Some Qualifications

The conclusion that use of retail store audit and consumer purchase panel data will produce a change in the nature of competition is based partially on the assumption that the use of these data will become much more widespread than is the case at present. In most industries today the firm using these data need expect retaliation (which is prompted by these data) from only a few of his competitors or, perhaps, none of them. The vast majority of producers are not subscribers to these services. It is likely, however, that this situation will continue to change. The trend is in the direction of greater use of data of this type.

Probably the more apparent trend resulting from use of these data in the near future will be toward use of non-price competition as such, rather than toward greater reliance on certain forms of non-price competition. This conclusion is warranted by the fact that retaliation

is much more difficult for all forms of non-price competition than for price competition as well as by the fact that, with the present limited number of subscribers to these data, this threat of retaliation is not yet severe enough to cause sellers to greatly prefer some forms of non-price competition to others.

An Evaluation

Only a brief comment on whether the change in the nature of competition produced by these data is good or bad is in order here. There are likely to be strong differences of opinion on this point. Many people believe that competition which centers upon price is more desirable. However, the essence of competition is rivalry, regardless of the grounds. Also, there is substantial justification for the ground that rivalry in the area of product development has done more to improve the standard of living of the American people than has rivalry with respect to price.[1] Evidence of this is to be found in the great improvements which have taken place in automobiles, refrigerators, the development of television, and so on. These are infinitely better, more serviceable products than were available in the past.

Increased emphasis on non-price competition need not mean higher prices to consumers. Non-price competition, to the extent that it is effective in broadening the market for a product, may give the volume necessary for lower prices. Also, effective non-price competition in itself may make price reductions more effective in influencing sales. Therefore, although less variation in price among sellers is to be expected from use of these data, the general level of prices might be

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[1]See Clare E. Griffin, op. cit., p. 288, and Joseph A. Schumpeter, Capitalism, Socialism, and Democracy, Second Edition (New York: Harper & Bros., 1947), p. 83.

lower than if they were not used.

Effect Upon the Extent of Competition

The use of retail store audit and consumer purchase panel data is at present limited to a small number of relatively large firms. The number of subscribers to these data, in total, is less than 200. The median annual sales of subscribing firms is over $200,000,000.

Reduction in Number of Competitors

Firms subscribing to these data gain a competitive advantage relative to non-subscribers. As pointed out above, use of these data makes possible a more rational direction of economic effort. Consequently, the efficiency of selling effort for subscribing firms is enhanced. Selling costs per dollar of sales are reduced. The result of giving some firms a competitive advantage relative to others is to increase their chances of success, and to reduce the chances of success of others. Consequently, subscribing firms can be expected to increase their share of the total market, and non-subscribers, unless effective counter measures are taken, will tend to lose out in the competitive struggle.

The conclusion that the use of these data by large firms gives them a competitive advantage relative to small firms is a tenable one even if it is admitted that small firms have less need for data of this sort. Small firms do not need these data as much as do large firms because they have closer contact with their markets. Still, large firms possess many other advantages relative to small firms, and these data counteract one of the major disadvantages which they have had in the past -- i.e., the lack of close contact with their markets.

The restriction of use of these data to a small number of firms is likely to continue. This limitation exists not only because of the high cost of these data, but because of such fundamental factors as a lack of appreciation of their value among small firms, an inability of small firms to use these data because they are not equipped to do so and because the data are of very limited reliability for their restricted markets. As a consequence, the present pattern of use of these data can be expected to continue and, in the long run, this will tend to reduce the number of competitors in the sale of many products.

Fewer Firms Need Not Mean Less Competition

The effect of a reduction in the number of competing firms upon the amount or intensity of competition is not clear. A reduction in the number of competitors certainly produces a more oligopolistic situation. That is, each seller will consider the total effect of his competitive effort. This, in turn, may cause him to react in one or both of two ways. It may cause him to withhold competitive effort, or it may cause him to change the nature of his competitive moves. The latter of these two results is almost certainly going to be present. The increase in the threat of retaliation produced by a reduction in the number of competitors would cause sellers to seek out methods of competition to which retaliation is more difficult. This thesis was established in the previous section with regard to other factors which produce such a fear of retaliation. Regardless of the cause of this fear of retaliation, the results are the same. The major question here, then, concerns the possibility of these data resulting in a tendency to withhold competitive action.

When the number of competing firms is small, the individual seller is torn between two conflicting desires. He wants to avoid the

danger of his competitive efforts being negated by the retaliatory efforts of others. On the other hand, there is a strong urge to improve one's own competitive position. There are differences of opinion concerning which of these urges is the stronger. The orthodox theory of oligopoly would hold that sellers in such circumstances would withhold competitive effort.

A withholding of competitive effort under such circumstances is a recognized possibility. There is also the possibility that intensified competition on grounds other than price will prevail. Many costs of a seller are relatively fixed, and there is a strong urge to expand volume in order to lower these costs as a percentage of sales. Because price reductions as a means of accomplishing this are ruled out under such circumstances, non-price competition, especially those forms to which retaliation is most difficult, are very likely to be used. This is the conclusion reached by Griffin in his study of this problem.[1]

No definite conclusion on this point can be drawn as a result of this investigation. We can, however, safely say that a reduction in the number of competitors does not necessarily mean a reduction in the amount of competition, but does mean a change in the nature of competition.

Effect Upon a Free Enterprise Economy

The growing use of retail store audit and consumer purchase panel data gives rise to a somewhat paradoxical situation. Use of these data provides for a more rational direction of economic effort

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[1] "The effect of a small number of producers, then, has been principally to divert effort from price reduction (which can be promptly imitated) to other elements in which a competitive advantage can be hoped to be more permanent." Clare E. Griffin, op. cit., p. 284.

in a free enterprise economy, thus making that economy more efficient. At the same time, use of these data produces changes in the nature of competition and tends to cause a reduction in the number of competitors. These latter effects may make the maintenance of a free enterprise economy more difficult.

As has been pointed out previously, use of these data by large firms provides them with a competitive advantage relative to small firms. Small firms do not use these data. Entirely aside from the question of the effect of this on the extent or nature of competition within a free enterprise economy there is another question concerning the public reaction to this situation. The American people and, more specifically, American governmental bodies, tend to be sympathetic toward "the little fellow." We have a long history of trying to prevent him from being squeezed out of the competitive picture. Such things as the Fair Trade laws, the establishment of an Office of Small Business in the Department of Commerce, the setting up of the Smaller War Plants Corporation, discriminatory taxes against chain stores, and so on, serve as evidence of the existence of this attitude. It is not at all unlikely, therefore, that the gaining of a competitive advantage by large firms through use of these data will lead to a demand for government action to protect the small businessman.

The change in the nature of competition produced by use of these data may also be viewed askance by many individuals. These data encourage competition on a non-price basis. This form of competition does not conform to the pattern on which the theory of "perfect competition" is founded. The classical economists' concept of perfect competition, although entirely unrealistic, is still viewed by some as a model to which we should try to conform. Competition on grounds other than price

is often viewed as "synthetic" competition. Consequently, the competitive environment which is likely to be found when these data are widely used will not meet with universal approval, and demands for government action to correct this situation may be forthcoming.

Use of these data may not only produce demands for a more controlled economy but, at the same time, will also make a planned economy more workable. Under a planned economy there continues to be a need of discovering the nature and extent of demand for a product and of producing and allocating goods in accordance with that demand. However, within such an economic environment there is no free market to facilitate this task. Under a free economy, market forces register the demands of consumers and channel the efforts of producers along desired lines. Within a controlled economy, these data can serve as a substitute, but not a perfect one, for a free market. They can aid the planning agency in determining the quantities of a product consumers want, the outlets through which they wish to receive them, and so on. Because they can serve this function, they increase the efficiency with which a controlled economy can be expected to operate and, consequently, may be a force acting to hasten the arrival of such an economy.

Thus, we are forced to conclude that these data, although they provide for a more rational direction of economic activity under the free enterprise system, may also: (1) stimulate demand for a government controlled economy, and (2) increase the efficiency of operation of a controlled economy.

Conclusions Restated

The continued and increasing use of retail store audit and consumer purchase panel data can be expected to produce the following economic effects:

1. A more rational direction of economic effort in the sense that they make possible a more efficient use of economic resources.

   a. A more efficient use of economic resources produces directly an increase in the plane of living of consumers.

   b. The ability to use economic resources more efficiently increases the marginal efficiency of capital which, in turn, leads to a higher level of employment and income.

2. A change in the nature of competition in the following ways:

   a. A tendency to increase the use of non-price competition relative to price competition.

   b. A tendency to increase the use of those forms of non-price competition to which retaliation by competitors is most difficult.

3. A tendency to reduce the number of competitors. This would change the nature of competition. Its effect upon the amount and intensity of competition, however, is not clear.

4. A greater likelihood that a planned economy will be substituted for the American free enterprise economy because:

   a. Effects produced by use of these data may stimulate demand for a planned economy.

b. Availability of these data increases the effectiveness with which a planned economy can be expected to operate.

Our objective concerning these data should be to obtain the desirable effects and to avoid the unwanted effects which derive from their employment. The more rational direction of economic activity, and the resultant higher plane of living for consumers which the use of these data provides, should be retained. It is probably not desirable, on the other hand, that additional impetus, however slight, be given to any presently existing tendencies toward a more controlled economy. To avoid this possibility, however, a solution must be found to one basic problem. This problem consists of the present restriction of use of these data to large firms.

What must be achieved in order to solve this problem is clear. Small firms must be induced to make use of these data. The accomplishment of this, however, is far from simple. There are two things which, in a general way, must be done if this is to be achieved. First, these data must be made more usable by the small firm. Second, small business must be made to appreciate the value of these data.

The adaptation of these data to the special needs of smaller business involves no major problems. The greatest need here is to provide data which are reliable for the regional markets which smaller business firms serve. This requires more reliable samples than these research services currently possess. Such regional data are already being provided to some extent by newspapers for the areas which they serve. It can reasonably be expected that such data will be forthcoming from many sources if a sufficient demand for them should exist among firms which cannot satisfactorily employ the data now furnished by the

A. C. Nielsen Company and Industrial Surveys Company.

The most difficult obstacle to be overcome is the failure of small firms to appreciate the value of data of this sort and, along with this, their present inability to use these data effectively. Overcoming this obstacle is a major educational task. Somehow, smaller business firms must be convinced that they can profit from such information as these data provide. Also, they must be taught how to use such information effectively. The mere provision of these data by government will not solve this problem. This does not guarantee their effective use.

The educational job required here might well be a function of government, of trade associations, and of research services themselves. Government has already recognized the need for the education of small business, and is providing educational services of many sorts. This has probably been carried furthest in the case of agriculture. Trade associations are doing something along these lines, but a vast expansion of their activities is needed. Research services themselves certainly have an interest in this problem. They are currently overlooking a vast and potentially profitable market for their services. The educational task involved here, however, is so great that research firms, faced with the necessity of operating profitably in the short run, probably cannot be expected to undertake this task alone. These groups acting together, however, can progress toward a solution of this problem.

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