ADVERTISING AND COMPETITION IN THEORY PRACTICE AND PUBLIC POLICY

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by

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This study analyses and compares the theories relating to advertising and competition in economics literature with their operation in the market-place, and with the attitudes and pronouncements of public policy towards advertising and competition.

A survey of the main literature in economic theory concerned with advertising and competition includes the theory of value, the theory of the firm, and theories and empirical studies on the effects of advertising and imperfect competition on prices, profits, barriers to entry and product differentiation. Since no general agreement exists on these theories and research, the review is interspersed with criticisms which have been made about specific features of them, and also a short outline of alternative theories which are considered to give a more accurate account of the behaviour of firms in the real world.

Consumer behaviour in the market is then studied from three viewpoints: a summary of the major academic theories of consumer behaviour; the results of some empirical research into consumer behaviour; and eight case histories of products and services which show how products are developed and introduced on the market.

Finally, the economic theories are compared with the results of the empirical research and the case histories. The theory and practice of advertising and competition is then compared with extracts from the reports of public bodies to illustrate the attitude of public policy towards advertising and competition.

The conclusions draw attention to the major discrepancies which appear to exist between theory and practice, and the implications that follow for public policy which seems to be predominantly based on the theory of the firm and the need to eliminate imperfections in the market such as product differentiation, advertising and non-price competition.

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C O N T E N T S

INTRODUCTION

This study analyses and compares the theories relating to advertising and competition in economics literature with their operation in the market-place. The divergences which are found to occur between theory and practice are then compared with the attitudes and pronouncements of public policy towards advertising and competition. The thesis is divided into three parts.

Part 1 reviews the main literature in economic theory concerned with advertising and competition, i.e. the theory of value, concept of consumer sovereignty, theory of the firm - perfect and imperfect competition, and theories and empirical studies on the effects of advertising and imperfect competition, in particular, oligopoly, on prices, profits, barriers to entry and product differentiation. There is also a short review of the economics of information which analyses the benefits which buyers of advertised products gain from advertising as opposed to the traditional approach of considering advertising almost entirely from the viewpoint of the sellers of advertised products. Since there is by no means general agreement on these theories and studies, the review is interspersed with criticisms which have been made about specific features of them.

This survey is followed by an outline of three alternative theories which are considered to give a more accurate account of the behaviour of firms in the real world: managerial economics; management of demand; and competition as a process and not as a situation. However, many of the criticisms of the theory of the firm have been rejected as being misconceived for a variety of reasons, viz. (1) since the theory was only ever intended as an abstract model conceived for theoretical reasoning, it is not surprising that it should diverge from reality, and should not therefore be taken at its face value; (2) that it provides a limiting case against which real situations can be compared and evaluated and

(3) that the major decisions of firms in the real world are dealt with in the literature of the economics of industrial structure and organisation. Finally, Part 1 outlines the concept of 'workable' competition which has developed parallel with the traditional theory of the firm to explain how under conditions of oligopoly and imperfect competition, it is nevertheless possible for competition to flourish.

Part 2 studies the consumer in the market from three points of view. First, by a brief survey of the major academic theories of consumer behaviour, which is followed by examples of empirical research into consumer behaviour including brand loyalty and brand share prediction. Finally, eight case histories illustrate how products are developed and introduced on the market, how firms compete, and the different forms that competition can take.

Part 3 compares the economic theories on advertising and competition as outlined in the mainstream of economics literature in Part 1 with examples taken from the case histories and the empirical research in Part 2. In turn the theory and practice of advertising and competition is compared with examples taken from the Reports of such bodies as the Monopolies and Mergers Commission, the Price Commission and the Office of Fair Trading which illustrate the attitude of public policy towards advertising and competition.

The conclusions draw attention to the major discrepancies which appear to exist between theory and practice, and the implications that follow for public policy which is predominantly based on the theory of the firm and the need to eliminate imperfections in the market such as product differentiation, advertising and non-price competition.

PART 1

REVIEW OF ECONOMIC THEORIES

OF ADVERTISING AND COMPETITION

1. Traditional Neo-classical Economic Theory

(a) Theory of Value

The factors which determine demand, supply and price comprise the theory of value and distribution. This forms the core of orthodox economic theory and is based on the "principle of equal net advantage", i.e. that under the stimulus of prices and profits resources move from one occupation to another, and from the production of one type of product or service to another.

Adam Smith and his concept of "effective demand" contains the germ of the modern theory of demand and supply, (Chapters 7 & 9, Book 1). Briefly, Smith put forward that producers sought to earn the largest possible profit, but in order to do so they had to produce goods desired by the community. Further, they must produce them in the right quantities, otherwise too much would cause a low price and a low profit, while too small a supply would cause an increase in price. The delicate mechanism of the "invisible hand" was also at work in the markets for the factors of production - capital, land and labour - providing harmony as long as factors sought the largest possible earnings. This was one part of the system of social harmony in an economic society which was dependent on the delicate balance of man's conflicting motives.

Ricardo's main achievements in the theory of value and distribution are set out in The Principles of Political Economy and Taxation (1817, 3rd edition, 1821). His theory of value was a quantity-of-labour theory. He dismissed 'scarce' (i.e. irreproducible) commodities; he concentrated on the mass of goods that may be 'increased by human industry' and tried to demonstrate that the exchange values of commodities will be proportional

to the quantities of labour embodied in them (included 'stored-up' labour in the form of machines etc.). The simplicity of this proposition was stretched in later sections of the book on production requiring the use of proportions of capital and labour of varying qualities, but Ricardo retained it as a fundamental element in his theory.

After Ricardo, most of the energies of the Classical school were devoted to the labour theory of value, vaguely formulated by Adam Smith and developed by Ricardo. It was widely criticised but not replaced until the 'full cost' theory of John Stuart Mill that the value of a commodity depended on the amount of all the factors used to produce it.

The modern theory of value and distribution dates from the latter part of the nineteenth century. The beginnings of the 'Marginal Utility School' developed simultaneously around Jevons in England, Carl Menger in Austria and Walras in Switzerland which approached the problem of value from the side of demand and produced the theory that the value of a commodity depended on the 'utility' or satisfaction of a final marginal unit. This led to the exposition of the utility analysis as the foundation of both demand and supply, and as a general theory of choice. Much of what the marginal utility school proclaimed is implicit in the classical economists, but now for the first time, the dependence of value on scarcity, in relation to demand, and the dependence of scarcity on cost of production was made explicit. The shift in emphasis away from cost of production towards demand and final consumption caused the change to be described in terms of a shift to a Subjective Theory of Value.

Although this theory was refined and developed by Wieser and Bohm-Bawerk in Austria, it met with opposition in this country and was not finally accepted until the publication of Alfred Marshall's Principles of Economics in 1890. Marshall's contribution was to bring together what had formerly been two competing theories into a single theory of value and distribution. His basic proposition is that any price tends to be that at which the quantity of the commodity demanded is equal to

the quantity supplied. Marshall showed how the demand curve depended on the underlying utility relationships, and how the supply curve was related to costs. Man's economic behaviour was based upon a balance between the search for satisfaction (utility) and the avoidance of sacrifice; this approach enabled Marshall to treat utility and costs as the joint determinants of value. They were like the blades of a pair of scissors, neither cutting solely by its own action.

He applied this general scheme to the whole field of economic activity. The individual consumer obtained income by balancing the disutility of effort with the utility derived from spending the income derived from it. Likewise, the pattern of his expenditure was determined by the utility to be obtained from a commodity at the expense of the utility foregone in not buying others.

The two principles underlying this theory are (1) that price tends to reflect opportunity costs, i.e. the sacrifice of the alternatives foregone in producing a commodity or service, and (2) that consumers spend their incomes in the ways they prefer, i.e. there is consumer sovereignty. (Consumer sovereignty in its simplest form, signifies that it is the preferences of consumers, as shown by the ways in which they spend their money, that determine what merchandise is produced and which services supplied.)

This proposition would naturally be easier to accept if all goods were produced to order. The direction of economic activity would then be determined by consumers' orders. Retailers would pass them on to wholesalers, wholesalers to manufacturers, manufacturers to producers of intermediate products, and so on. In practice, of course, the vast majority of merchandise is manufactured in anticipation of consumers' demands. Nevertheless, even under round-about methods of production, which are continually lengthening as technical processes become more complex, consumer sovereignty implies that businessmen whose anticipations are correct, earn a larger money return than if they are wrong. If they

are shown by events to be wrong, businessmen are compelled sooner or later to change their plans, and to bring them more closely in line with the wishes of consumers. In this way, it is still possible to maintain that production is controlled by demand, or rather for the most part by expected demand. Broadly, consumer sovereignty is more effective the more competitive the market, and less effective where there is an element of monopoly.

The theory of consumer sovereignty is subject to three limitations. First, the amount of available resources and the state of technical knowledge imposes an inherent limitation on the power of consumers to determine what shall be produced. Secondly, the distortion implicit in inequality of income permits the pull on the market exerted by the rich man to be disproportionately stronger than that exerted by the less wealthy. Thirdly, there are the limitations imposed by the State: the sale of some goods, such as certain drugs, may be prohibited; the consumption of others, such as alcoholic drink before driving, is effectively restricted. The first limitation is inherent; the second can be alleviated by the State through progressive taxation; the third is generally believed to be beneficial.

In several important respects Marshall's concept of the theory of value differed from that of the Marginal Utility School:

1. In contrast to the concept of 'timeless equilibrium' Marshall stressed continually the importance of the time element in determining price and value:

> '... the margin, which must be studied in reference to long periods and enduring results, differs in character as well as in extent from that which must be studied in reference to short periods and to passing fluctuations.'
> (Preface xvi, 1920)

As a consequence, he considered the factors influencing the determination of value under three time periods relevant to supply: the momentary period in which equilibrium conditions relate to the disposal of a given stock of a commodity; the short-run in which the equilibrium output is

related to a given number of producers operating with given stocks of equipment; and the long-run in which the number of producers and the scale of equipment at their disposal are assumed to be variable. Finally, it was necessary for value to be considered in the 'non static' period when all economic data such as tastes, technology, population, etc. are likely to change. The importance of making these time distinctions was to clarify that the influence of utility on value predominates during short periods, but that of cost of production in the long run.

2. The Marginal Utility School considered the supply of factors of production as given because it was taking just the immediate, i.e. timeless period. On the other hand, Marshall did not take the factors of production as given but as having a supply price; there is a certain rate of return which it is necessary for a factor to receive to call forth a certain quantity of it. The price is not a cost, but it measures cost.

3. The implicit assumption of the 'Marginal Utility School' that wants are fixed was not accepted by Marshall:

> '... although it is man's wants in the earliest stages of his development that give rise to his activities, yet afterwards each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities.' (1890, p.89)

Furthermore, Marshall pointed out the 'high theme of economic progress' and was anxious to distance himself from the idea of treating economic problems in terms of 'statical equilibrium' which he maintained was not only an imperfect introduction, but 'barely even an introduction to the study of the progress and development of industries which show a tendency to increasing returns.' Since Marshall was well aware of the intricate nature of economic rivalries in the real world, his comment was presumably intended as a rebuke to those who had taken the analogy of Jevons seriously (Statical Mechanics) so that economic analysis became pre-occupied with equilibrium positions under conditions of competition. A second consequence followed from this preoccupation, as Dobb pointed out:

> 'following from this, dynamic considerations tend to be ignored ... could not deal with the stability or instability of paths of movement, and hence with fluctuations or with change as a process.' (1973, p.173)

The differences between the two views of the neo-classical doctrine were synthesised by Pigou by placing it in a setting of stationary equilibrium which turned it into a neat logical system, but which also neglected some of the Marshallian concepts on time, wants, and competition.

(b) The Theory of the Firm: Perfect and Imperfect Competition

The essence of the theory of the firm as it has become familiar in economic textbooks is as follows:

The theory is only applicable under the assumptions of perfect competition. For an industry to be perfectly competitive two conditions must be met.

1. The product must be homogeneous so that the products of one firm will be perfectly substitutable in the minds of the buyers for the product of any other firm in the industry.

2. The most profitable output of the individual firm must be small relative to the total output coming onto the market. The latter condition will be fulfilled only if the average cost of production in each individual firm reaches its minimum at a relatively small output. It will also be fulfilled only if the commodity is readily transportable and if the buyers and sellers are in close physical proximity.

Perfect competition is then an analytical 'model' of the pure form that a market would take if:

(a) there were many sellers of absolutely identical products in relation to their total sales so that none could influence market price by varying the quantity he was prepared to market, i.e. every seller is faced by a horizontal demand curve. It follows that a firm with perfect markets will not have any selling costs; there is no point in trying to

increase the amount that can be sold at the market price when any amount within the limits of the firm's capacity is saleable.

(b) buyers and sellers were aware with complete certainty of prices and opportunities available everywhere in this and other markets, i.e. there is perfect knowledge and therefore the absence of advertising and other marketing costs;

(c) significant economies of scale were absent so that no one seller could grow to dominate the market (i.e. producers would remain relatively small-scale); and

(d) there were no barriers of any kind to the movement of land, labour, and capital or of entrepreneurs from or to the rest of the economy.

The assumption is also made in this static theory that in the short run incomes and tastes remain the same, and the state of technology is given.

Under these circumstances competition among producers would in the long run ensure that every producer was operating with the most efficient size of plant and equipment, producing the most efficient (low cost) output, and was earning only the minimum amount of profit necessary to maintain the minimum necessary number of producers in the industry.

Equilibrium is reached when prices are such that supply of every commodity equals the demand for it, and no factors of production have any incentive to move into another industry or occupation. It is true that the prices of products are related to the prices of the factors of production employed in producing them. But it is also true that the prices of those factors depend on the value of their products both in the industry under consideration and in other industries.

The prices of products in one industry are affected by the prices of the possible substitutes produced by other industries. Everything depends on everything else. The price system is a system; all prices are mutually dependent on one another.

The model of perfect competition yields an 'ideal' output in the

sense that the price consumers would have to pay to obtain additional supplies of a commodity produced under these conditions would, in both the short run and the long run, be just sufficient to bid the necessary productive resources away from alternative uses. If production were everywhere organised in this ideal manner the price system would thus secure an optimum distribution of economic resources to reflect consumers' preferences in the most efficient way. The model thus provides a yard-stick of economic efficiency in the allocation of resources.

In the exposition of perfect competition, pure monopoly is treated as a special case, and consists of the opposite of the three essential elements of perfect competition, i.e. (1) one firm in the industry; (2) producing a product wholly unlike the product of any other firm; and (3) no possibility for new firms to enter the industry. Then it is traditionally assumed that a single producer will be able to raise his price and thereby earn a monopoly profit, depending upon the shape of his demand curve.

Although both perfect competition and monopoly were seen to be operating in the economy (many agricultural products and commodities operate under conditions close to perfect competition; "public utilities" operate under conditions close to pure monopoly) the bulk of economic activity clearly operated between the extremes of perfect competition and pure monopoly. Consequently, there were several attempts made to replace or supplement the model of perfect competition. Most notable were the concepts of monopolistic and imperfect competition developed during the 1930s by, respectively, E.H. Chamberlin and Joan Robinson. As she pointed out in 1969:

> '... by showing that perfect competition cannot obtain in manufacturing industry (imperfect competition) undermines the complex of ideas erected on the slogan of "price equals marginal cost".' (Preface xi)

Imperfect competition covers the economic models of market forms used in economic analysis other than perfect competition, i.e. monopolistic

competition, oligipoly, duopoly through to monopoly. In all cases of competition, whether perfect or imperfect, freedom of entry of firms or of other resources into the industry is assumed. The different types of competition are then defined by ringing the changes on two fundamental conditions: the homogeneity of the product and the number of firms. Perfect competition assumes many firms and a homogeneous product, but many firms producing products which are similar but not identical is monopolistic competition. When a few firms are selling a homogeneous product there is perfect oligopoly, whereas when a few firms are selling heterogeneous products imperfect oligopoly exists.

Thus imperfect competition depicts a market situation which does not fulfil all the conditions necessary for perfect competition and is characterised by one or more of the following features: the ability of sellers to influence demand by persuading consumers that their product is different from others of the same kind and thus generate some degree of monopoly by such practices as product differentiation, branding, advertising; restraints on the entry of competitors into any line of production either because of the large scale of initial investment required or because of restrictive and collusive practices; the existence of uncertainty and imperfect knowledge about prices and profits elsewhere; the absence of price competition. There is a clear distinction drawn between restrictive practices employed by a group to convert an otherwise competitive situation into a monopoly and an individual monopoly or near-monopoly which arises from the economies of large-scale production.

The distinctive contribution of Chamberlin and Robinson was to show that in contrast to neo-classical economics it is more appropriate to set out the analysis of monopoly, and treat perfect competition as a special case. Then the condition noticed under perfect competition that the most profitable output occurs where price equals marginal cost is only a special case of the general proposition that all firms are most profitable at the output where the marginal revenue equals marginal cost.

If the simplifying assumption is then adopted, as it is, that the monopolist or the producer in an imperfectly competitive market will produce such an output as will maximise his profits, output will tend to be smaller other things being equal (e.g. costs) than it would be in a more competitive market. Whereas under perfect competition sellers are price takers because the price is constant for all outputs, under all degrees of imperfect competition the supplier is a price searcher because he is faced by a declining demand curve so that an additional quantity can be sold only if the price of all output is lowered. However, just as with perfect competition, imperfect competition is also a static theory which takes demand as given, and does not inquire how consumer preferences are formed:

> As Lady Robinson (1969) put it:
>
> 'The whole analysis, which in reality consists of comparisons of static equilibrium positions, is dressed up to appear to represent a process going on through time. To put the argument into a dynamic setting it is necessary to distinguish between the short-period aspect of competition ... and the long period aspect.' (Preface vi-vii)

Under the imperfect competition analysis, the more markets are imperfect the smaller the output because the higher the price has to be in order to maximise profits; since the high price may attract new competitors, output may remain below the optimum level.

It is therefore only under perfect competition, with perfect mobility of resources, that private interest and social interest coincide. Imperfect competition does not yield the best results in terms of economic welfare because it does not conform to the premise that consumers should get the goods that they value more highly, and should go on getting them.

Thus in traditional theory the firm has been regarded mainly as a vehicle for maximising profits and allocating resources or, where it was admitted that, in the presence of imperfect competition, this might no longer be possible, the alternative behaviour of the firm has been considered almost entirely in terms of price theory. Traditional theory,

too, has been concerned predominantly with whether profits are normal or contain an element of monopoly profit.

Finally, the simplifying assumptions made in the theory of the firm for purposes of analysis have the effect of confining the entrepreneur to a straitjacket, and thereby reducing his role in the words of Benson to a -

> '... creature that moves
> In predestinate grooves
> He is not even a bus; he's a tram.'

(c) Advertising and Economic Theory

The adjective 'perfect' is a technical term used in economic analysis; it has no necessary moral implication. An equivalent in the physical sciences is 'perfect' vacuum which means complete not necessarily best. Nevertheless, imperfect competition is often regarded as less desirable competition, in particular the 'imperfection' of the market brought about first, by advertising and other selling techniques, and secondly, by a market structure characterised by seller concentration - oligopoly. Since discussions on advertising and oligopoly are inextricably linked, before proceeding to the relationship between advertising and competition, the concept of oligopoly - the domination of an industry by a few firms - requires elucidation.

The theory of the firm predicts that industries in which output is produced by a few dominant firms may in the long run earn higher rates of return. For this to occur, the assumptions are made (1) that collusion rather than competition increases with concentration; and (2) that there are barriers to entry. Without these conditions monopoly profits will not arise.

The other major feature of oligopoly under this theory is a diminution of price competition among firms as a direct result of their mutual interdependence. It is argued that there will be a general unwillingness

to lower prices because this action will cause competitors to follow suit, and since market shares will remain unchanged, all the firms will suffer a fall in profits. Conversely no firm will readily raise its prices, because if others refuse to do likewise, the company which raises its prices will lose share of the market. This will lead to a stagnant situation in which prices will change only very slowly even when costs are changing, and the market shares of the few large companies will remain fairly stable. The appreciation among oligopolists of the interdependence of their market behaviour leads them to forego independent price initiatives in favour cf co-ordinating pricing (tacit or overt). More commonly, oligopolistic markets are characterised by non-price competition in the form of advertising and sales promotion activities aimed at product differentiation and the development of brand loyalty, and these factors rather than price competition will determine market shares.

The absence of independent pricing under an oligopolistic market structure therefore leads to the prevalence of parallel prices and price leadership. A distinction is, however, made between disciplined and barometric price leadership. The major conditions contributing towards disciplined price leadership include not only high seller concentration but also security against the entry into the market of new competitors, similarity of products, the degree of elasticity of demand, and similarity of cost levels and cost structures. The greater the discipline and the more unresponsive the demand, the higher, other things being equal, are prices and profits likely to be.

Barometric price leadership comprises a much looser form of price leadership where in the presence of frequent changes and differences in cost and demand, products and production methods, and competitive conditions, it is much more difficult for firms to sustain highly co-ordinated pricing. In this more volatile situation the price leader will only be followed immediately if his decisions are felt to be an accurate reflection of changes in cost and market conditions. According to

Stigler, in barometric pricing the price leader:

> 'Commands adherence of rivals to his price only because and to the extent that, his price reflects market conditions with tolerable promptness.' (1947, 446)

It has been further argued (Markham, 1951) that the factors responsible for barometric price leadership result in a less orderly form of price parallelism and a type of behaviour closer to that expected in an industry composed of a larger number of sellers. As a result, the levels of prices and profits are likely to diverge less from the competitive norm than with the disciplined forms of parallel pricing.

The position of economic theory on the place of advertising in the theory of the firm has been the subject of considerable debate and controversy among economists.

If, as is assumed under perfect competition buyers and sellers have perfect knowledge advertising would be superfluous and represent a waste of resources. If, on the other hand, there was not always perfect knowledge, advertising could perform a useful function. It has been generally accepted that in the real world some selling techniques are necessary because information is not perfect, or because indivisibilities in production techniques require markets to be expanded.

A Nevertheless in the provision of information advertising expenditure has been deemed for two reasons to be excessive and wasteful, and therefore with undesirable effects on welfare:

1. Many advertisements are persuasive and not informative. Persuasive advertisements stimulate product differentiation and brand loyalty, and hence imperfect competition;

2. Advertising is jointly supplied with the commodity (Kaldor) in the sense that the buyer must pay for both even though he only wishes to purchase the latter, and would buy less advertising than he does under this arrangement if advertising were separated from the product.

This line of reasoning has led to proposals that advertising should be taxed to provide an incentive for firms to reduce prices; that adver-

tising expenditure would be reduced if large-scale retailers dominated the distributive system; and that comparative testing of products by public or private bodies would be more economic than advertising in providing information.

B Most recent discussion of advertising in relation to the theory of the firm, and in the branch of economics dealing with industrial structure/organisation has, however, concentrated on the welfare implications of the effect of advertising on competition, and particularly on market structure:

1. The association of advertising with product differentiation in building up brand loyalty, and thus causing imperfections in the market, excess capacity and higher prices;

2. The significance of advertising as an important cause of industrial concentration (an increase in the market share of the three or four largest firms);

3. The role of advertising as a barrier to entry, which re-inforces concentration and enables firms to earn monopoly profits.

C In a comparatively recent sector of economics - the economics of information - advertising has been considered from the point of view of buyers of advertised products as opposed to the sellers of these products which has been the traditional approach.

These issues of advertising and economic theory are closely related, but will be dealt with separately as far as possible for ease of exposition.

A1 Advertising and Information

The first major economist to acknowledge advertising as a subject for economic analysis was Alfred Marshall; he distinguished between 'constructive' advertising, designed to inform people about products offered for sale, which he thought was beneficial, and 'combative' advertising which was primarily not informative but repetitive and persuasive, and which was wasteful, even if it raised output and lowered

costs, because such economies could have been reaped without it. (1919, p.305).

Marshall's separation of advertising content into two kinds was adopted by Pigou during the 1920s, and he drew a similar but more extreme distinction between 'informative' and 'competitive' advertising. The latter advertising had

> '... the sole purpose of transferring the demand for a given commodity from one source of supply to another.' (1932, 196-200)

He considered that most advertising was 'competitive' and therefore undesirable. Advertising could lead to arrangements between formerly independent firms and therefore to monopoly; it could be self-defeating because the advertising efforts of competing firms cancelled one another out; and it could merely substitute the products of one firm for those of another and more efficient firm. Pigou suggested that the wasteful element in advertising might be prevented by taxing or even prohibiting 'competitive' advertising.

The distinction of advertising into two kinds continued with apparently little empirical investigation. Stuart Chase

> 'Nine-tenths and more of advertising is largely competitive wrangling as to the relative merits of two indistinguishable compounds'. (1925, 113)

The distinction between informative and other advertising was considered logical and impracticable by Braithwaite (1932). She judged, however, that most advertising was not informative. If advertising increased output by facilitating standardisation and mass production, and reduced costs per unit and therefore prices, then it could be considered beneficial. On the other hand, if it merely redistributed demand for different commodities, resources were used in a less desirable pattern from the community's point of view.

It seemed to be implicit in the distinction made between 'informative' and 'competitive' advertising that it was the function of the latter to differentiate products. Braithwaite, for instance, propounded that

advertising could restrict competition because price and quality lost their powers as instruments of competition and were replaced by the power of producers to win markets by creating 'reputation'. This process of creating 'reputation' monopolies then became cumulative and a vicious advertising circle was set in motion.

In the 1930s Chamberlin and Robinson developed Braithwaite's notion of reputation monopolies by claiming that advertising could be used to 'differentiate' products from one another by emphasising the less important advantages and so create 'loyalty' for each brand; this gave each advertiser a pocket of monopoly and he could then charge a higher price for his product, but his output was lower than it would be in perfect competition.

Later Robinson (1969) put this view more forthrightly:

> '... non-price competition, such as artificial product differentiation, advertising and sales promotion ... accounts for the greatest part of the wastefulness of imperfect markets.' (Preface, ix)

Comanor and Wilson (1974) also seemed to imply that advertising was the essential ingredient required for the introduction of product differentiation:

> '... advertising in this analysis acts as a proxy for product differentiation, or, more specifically, for the product and market characteristics that permit heavy advertising expenditures to differentiate effectively and the products of a firm from those of its rivals. Although these product and market characteristics are not easily measured, they are typically characterized by heavy advertising expenditures.' (130-31)

The commonly-accepted distinction between 'informative' and 'combative' advertising was applied by Lewis (1945, 1949) to retailers' and manufacturers' advertising respectively. He argued that consumers are better guided by retailers into buying (standardised or mass produced) goods they have chosen on the basis of their expert knowledge and experience than by manufacturers each of whom is intent on pushing his own brand or variety on ill-informed purchasers.

> 'It should not be on the manufacturer's strident claims that the public has to rely for information ... much advertising by manufacturers is wasteful (because buyers and sellers already know the facts, or when it is false or misleading). (1945, 218-220)

In this view, therefore, retail advertising is distinguished as 'desirable' because it is informative; manufacturer advertising is considered 'undesirable' because it is mainly combative or persuasive.

The thesis that advertising was one way of conveying information to consumers about a product they knew existed, but to mix information with persuasion seemed undesirable, and the amount of resources devoted to advertising seemed excessive persisted through the 1920s and 30s to the 50s and 60s. Harbury (1958) for instance, explains that most advertising is 'largely persuasive in character and the information supplied is selective'.

There were, however, economists who questioned the belief that it was possible to isolate 'informative' from 'competitive' advertising, and that one component of the content of advertisements could manipulate demand against consumers' interests.

1. It has been pointed out, for instance (Harris & Seldon, p.74, 1962; Economists Advisory Group (1967, 79)) that the ability of 'persuasive' advertising to manipulate demand contrary to the consumer's interest is at variance with economic theory in which consumers' preferences are given and changes in them are largely ignored. Moreover, conventional demand theory does not enquire into how consumers' preferences are formed in the first place.

2. It has been argued that the distinction drawn between 'informative' and 'competitive' advertising is a matter of semantics, and one which in practice it is impossible to draw. Consequently, advertising <u>per se</u> should be considered as providing some kind of information, e.g. Hicks:

> 'The attention of the consumer has to be attracted and his attention aroused. In order to perform its social function, advertising has to be attractive and (let us not be afraid to say) persuasive.' (1962, p.257)

and Alderson:

> 'All effective communication is persuasive ... both information and recommendation must be presented persuasively if they are to have any effect on purchasing decisions.' (1968, 582)

3. The artificial distinction drawn between 'informative' and 'persuasive' advertising is based on a misunderstanding of the nature, purpose and rationale of advertising which is wider than conveying information to the consumer about products which are already in existence (new products; continually changing consumers - baby products; new uses of an established product; changes in the product itself: Telser; Ozga; Marris), e.g. Kirzner:

> 'The entrepreneur's task is not completed when he makes information available to the consumer. He must also get the consumer to notice and absorb the information ... It is not so much perhaps that effective communication needs to be persuasive as that it needs to be eye-catching, mind-catching, and re-inforced by constant repetition'. (1973, 162)

Despite these counter-arguments to the conventional distinction between 'informative' and 'persuasive' advertising, the traditional view persisted. Together with Kaldor's contrast of the higher cost of advertising compared with that of an independent information service plus his contention that advertising is biased, these views led to the proposal that a more efficient and unbiased method of spreading necessary information might be reports by independent consumer advisory units.

Thus Meade:

> 'Consumers are ignorant and gullible. It is, therefore, desirable for the State to discourage private commercial advertisement and to foster disinterested consumer research and information services.' (1964, 12).

More recently, Meade expanded this proposal:

> 'Of course much advertisement of an informative nature is necessary and desirable. But much advertisement is not of this kind. A tax on advertisement would increase the incentive for firms to seek markets by cutting prices rather than by persuasive bamboozlement ... Measures might be taken to replace much interested persuasive advertisement with impartial information through the promotion by the State of bodies for consumers' research and education. The provision and widespread dissemination by a number of independent semi-public bodies of information about the real qualities of different products would increase the forces of the market mechanism to which the producers would have to submit.'
> (1975, 49-50)

A more extreme view that even an independent consumer advice system might not be adequate to counterbalance the power of advertising was put forward by Lady Robinson:

> '... consumer sovereignty can never be established as long as the initiative lies with the producer. For the general run of consumer goods, the buyer is necessarily an amateur while the seller is a professional ... The great chain stores exercise some monopsonistic influence in imposing a kind of synthetic perfect market on small-scale producers, but they cannot offer a counterweight to the great oligopolists.' (1969, xii)

That independent information services for consumers are necessary because the information provided by advertisements is designed by the sellers of goods and is consequently biased was also propounded by the Economists Advisory Group (1967, 78); while Reekie agrees with their view that there is 'too little information in particular' and suggests 'establishing some sort of rival to the Consumers' Association' (1977, 86-88).

B1 Advertising and Competition

The view of many economists regarding the relationship between advertising and competition is summed up by H.C. Simons:

> 'A major barrier to really competitive enterprise and efficient service to consumers.' (1948, p.95)

The major criticism of advertising in the post-war period has been Kaldor's 'The Economic Aspects of Advertising', (Rev. of Econ. Studies, Vol.XVII, 1950/51).

His criticisms are set out in some detail because they highlight the major aspects of advertising and economic theory which have been the subject of controversial debate and empirical investigation for the past twenty-five years.

Kaldor accepts the view that although the primary 'direct' function of advertising is to provide information, it does not do this efficiently for three reasons:

(a) Advertising is a waste of resources because advertisers buy more advertising than the public require with the result that there are socially undesirable effects on welfare. This contention is expounded from the classical economist's viewpoint of consumer sovereignty. For example, Kaldor defines advertising as a subsidised commodity which is

offered by the manufacturer to the consumer at nil cost in the expectation that there will be a consequential increase in the demand for his products. In other words, the manufacturer is the seller of the advertising and the consumer is the buyer. Therefore, because advertising is not bought separately, but is purchased as an integral part of the product, consumers cannot easily evaluate whether or not they want it, and therefore its true cost is not known, nor whether resources are economically used for supplying it.

(b) Kaldor claims that advertising fails to provide enough unbiased information.

(c) It is costly. Whereas advertising in 1938 cost £68 m, the information supplied by advertising could be provided more cheaply by an independent information service, i.e. around £14 m.

In addition, Kaldor claimed that advertising has three 'indirect' effects: first, it may stimulate the introduction of new products which is undesirable. Secondly, it encourages spending at the expense of saving, which is desirable in slumps and undesirable in booms. Thirdly, that it switches demand from some products to others which is undesirable, i.e. advertising shifts demand from smaller to larger firms, so reducing the number of firms until the whole output of a commodity is produced by a small number - oligopoly - so that competition no longer takes place by means of prices, but by means of packaging, samples, coupons, gifts and other attractions that might be considered secondary. This method of competition has advantages and disadvantages compared with more perfect competition, i.e. economies of large-scale production, finance, long-term research and more risk-taking. Disadvantages include higher costs of management, high selling costs (including advertising), higher prices, barrier to entry to new firms with new ideas and methods because of the high cost of breaking into the market, and a possibly dangerous concentration of economic power.

Thus Lord Kaldor concluded that there are monopolistic and oligopo-

listic tendencies inherent in advertising, which lead to a progressive concentration of market power in the hands of large firms, so that this concentration leads in turn to a reduction in the degree of freedom of entry into the market for newcomers, and that consequently it is possible for existing firms to enjoy a higher level of profit without attracting new competitors than would be possible if there were no advertising.

As a means of reducing advertising expenditure and other selling costs Kaldor, like Lewis (op. cit. p.20) maintained that the distributive system should be dominated by the retailer, and by retailer brands rather than those of manufacturers. The manufacturers would supply large retailers (chain stores, co-operative societies) who would tell them what consumers wanted. It was also envisaged by both Lewis and Kaldor that the pressure of retailer-domination would lead to a reduction in the variety of products.

A2 Advertising Joint Supply

The joint supply argument that advertising expenditure is excessive because consumers cannot purchase advertising separately from the product has been criticised on several counts. The basis of the attacks has usually been to question the various economic assumptions behind Kaldor's hypothesis. Telser (1966), for instance, dissents from Kaldor's reasoning because (1) existing economies of joint production would be lost with a separate market for advertising messages; and (2) as long as there are unadvertised or lightly advertised goods available in the market, the price differential between these and advertised goods cannot exceed the amount consumers are willing to pay for the extra advertising involved. This last point has also been made by Stigler who further commented:

> 'The assimilation of information is not an easy or pleasant task for most people, and they may well be willing to pay more for the information when supplied in an enjoyable form. In principle this complementary demand for information and entertainment is exactly analogous to the complementary demand of consumers for commodities and delivery service or air-conditioned stores'. (1961, 213-225)

It has been argued by Ozga (1960) that real consumer demand for advertising is a great deal higher than Kaldor suggests because it forms part of consumers' continual learning and remembering process. All these criticisms assume that the argument is essentially whether the consumer demand curve and the media supply curve are as far apart as Kaldor suggests.

Lind (1975) on the other hand has pointed out that it is the manufacturer rather than the consumer who demands and buys the advertising, and it is the media rather than the manufacturer who supply it. It is illogical, therefore, to consider advertising as a separate entity from the product, as much as it would be illogical to consider delivery vans, for example, as separate from the product. On Lind's analysis advertising is an input to business, the amount of which is determined on exactly similar lines and with a roughly similar possibility of error, to those of any other capital, labour or marketing input.

B2. Advertising, Concentration and Profits

Kaldor put the case most strongly that advertising is important in promoting seller concentration:

> 'The economic effects of advertising must be judged therefore in terms of the advantages of the manufacturers' oligopoly (as against the polypoly under wholesalers' domination) which it helped to create and maintain ... after advertising has been generally adopted ... sales will have been concentrated among a smaller number of firms and the size of the representative firm will have increased.' (1950, 13)

This view that seller concentration is higher than it would be if firms advertised less has stimulated a series of empirical investigations which have tried to ascertain, first, whether there is a systematic association between advertising intensity and industry concentration, and secondly, the relationship between advertising intensity and profitability. The assumptions underlying the argument that advertising increases monopoly power is that it leads to an increase in the minimum

efficient size of firm, and that there are increasing returns to advertising.

Concentration: increasing or decreasing?

Before discussing the specific relationship that is claimed to exist between advertising and concentration, it is necessary to point out that no general agreement exists on whether the degree of concentration in industry has been increasing or decreasing in the economy as a whole, nor into the factors which increase, decrease, and maintain concentration in particular industries, viz.

In the USA in the 1930s and 40s there was a general consensus (Berle & Means (1932); Burns (1936); Galbraith (1948)) that increasing concentration had been evident since the beginning of the century and that its continuing increase was inevitable. In the 1950s as a result of empirical and theoretical research these views were contested (Adelman (1951); Penrose (1959)), and their conclusions were confirmed by official statistics which showed a very stable structure of industry between 1954-72, and investigations into concentration ratio (the proportion of total industry output accounted for by the largest three/four firms in industry) which did not show a diminution in competition because the firms do not remain the same.

In the 1970s the view that industrial concentration had been growing in the UK was put forward (Aaronvitch & Sawyer (1974); Bannock (1971); Marris (1964) and in particular by Prais (1976)). The dangers of this development were emphasised as well as its implications for industrial policy.

Jewkes (1977) has however pointed out that Prais has frequently revised downwards the percentage of output he attributes to the 100 largest companies for the year 1970 from 52 per cent to 40/41 per cent, while the Department of Industry in an official study gave the figure for 1970 at 37.7 per cent. He concludes:

> 'The stability (around 33 per cent) of the corresponding percentage in American industry is now accepted by all informed observers. It may be that in the UK we too are reaching a stability around 38 per cent, the higher figure for the UK perhaps being accounted for by our smaller economy than the American ...' (1977, 24)

Other economists (Parkin (1972; Hart (1965)) have pointed out some of the limitations in Prais' Gibrat's Law. Jewkes further maintains that other mathematical economists have sought to understand the process of industrial concentration by taking into account the entry and exist of firms into and out of the market and that the conclusion of Adelman was the opposite of Prais, namely, that a tendency towards deconcentration could be expected and a growth in the size of the median firm.

Extensive analysis by Telser failed to find a correlation between advertising expenditures and market structure when he compared market concentration data with advertising intensity for forty-two industries:

> '... There is little empirical support for an adverse association between advertising and competition, despite some plausible theorizing to the contrary.' (1964, 558)

His general findings were that initial injections of advertising in an industry are not decisive, and that it is not the case that a given firm can take a major advertising initiative, which then gives it a monopoly which persists. On the contrary, Telser suggests that industries tend towards equilibria without being determined by historical advertising events.

A study by Mann et al. of fourteen industries, however, found a positive correlation between four-firm concentration ratios and average advertising-sales ratios (the simple correlation coefficients range from .41 to .72 among their several regressions) and concluded that:

> 'enough of the variance in concentration is explained by advertising intensity to raise an issue for public policy.' (1967, 38)

These findings sparked off considerable controversy. Ekelund & Maurice (1969), Telser (1969) and Ekelund & Gramm (1970, 1971) have argued that no correlation between advertising intensity and concentration exists in the USA. Doyle (1968), Reekie (1970) and Schnabel (1970) report

similar negative findings with UK data. Conversely, Marcus (1969), Mann et al. (1969) and Mann & Meehan (1971) have contended that there is a significant correlation.

In a critical review of the literature J.L. Simon was less convinced of the causal relationship between advertising and concentration:

> '... it is the structural features of an industry rather than decisions by single firms which determine the intensity of advertising on the industry', and added '... in any case the existing data are not well suited to a test of causality from advertising to concentration because it is not very reasonable to think of advertising as exogenous.' (1975, 169)

Thus the empirical data and the interpretation of them conflict about whether or not there is a correlation between advertising and concentration. It has been argued, however, that higher concentration alone does not lead to higher profits, but that conditions of entry are an equally important determinant.

The association between profitability and advertising intensity was first noted by Comanor & Wilson (1967). Their paper which used similar data to Telser, supplied empirical support for implications precisely the opposite to his conclusions. (This contradiction is primarily a reflection of differences in the conceptual and statistical approaches adopted rather than differences in data or sample):

> '... advertising has a statistically significant and quantitatively important impact upon profit rates which provide a measure of market performance as well as indicate the existence of market power.' (1967, 423)

Their findings showed that industries with high advertising outlays had a profit rate that exceeded that of other industries by nearly four percentage points, i.e. nearly half as high again as the other industries in the sample. Their findings were confirmed by Guth (1970) whose investigations showed that advertising affects the distribution of firm sizes in an industry; and that advertising increases the industry average profit level. Furthermore, while a study by Lambin (1975) covering eight different Western European countries found no significant association between measures of market concentration and advertising intensity, it did

find some support for the contention that advertising intensity increases the capacity of the firm to charge higher prices and did find that advertising could be an entry barrier for new firms, though this was neither general nor systematic of the countries and markets studied.

However, Telser has commented on investigations which show this causal link between advertising and profits:

> '... were matters so simple it would be hard to explain why all companies do not travel the same road to riches.' (1968, 169)

In a critical assessment of the available evidence Schmalensee (1972) analysed the impact of advertising on a firm's ability to earn monopoly profits. He concluded that a correlation between advertising intensity and profitability is to be expected even in the absence of a causal flow from advertising to profits. He can find no evidence that advertising increases the minimum efficient firm size, or that there are increasing returns to advertising, or that advertising creates durable preference changes that serve as entry barriers to new firms. He therefore concludes that nothing is really known about the impact of advertising on monopoly profits.

Ferguson (1974), when he examined the limited evidence, could also find no support for the contention that there are increasing returns to advertising. He also pointed out the formidable econometric and measurement problems present in the single-equation, multiple-regression tests of the hypothesis that advertising decreases competition which are used in most studies.

B3 Advertising as a Barrier to Entry

Stigler defines a barrier to entry as

> 'a cost of producing (at some or every rate of output) which must be borne by a firm which seeks to enter a business but is not borne by firms already in the industry'. (1968, 67)

A high level of expenditure on advertising in association with product differentiation has been seen as an effective method of discouraging new

entrants. This is contended to result from higher penetration costs of new firms, consumer inertia, and the economies of scale in advertising available to larger extant firms. Advertising has been criticised, therefore, as a source of monopoly power through its impact on conditions of entry, e.g. R.E. Cave:

> '... research in the USA has revealed that "heavy advertising" worsens industry performance by raising barriers to entry and increases market power.' (1968, 312)

However, there has by no means been a unanimity of view resulting from the continuous debate and empirical investigations which have taken place.

The pioneering work in this field is that of Bain (1956) who measured the influence of barriers to entry - classified as very high, substantial and moderate to low - on the profit rates of the leading firms in a sample of oligopolistic industries for the periods 1936-40 and 1947-51. He found

> 'product differentiation is of at least the same general order of importance as an impediment to entry as are economies of large-scale production and distribution'. (Ch.4)

This investigation was followed up by Mann (1966) who undertook research into the relationship between seller concentration, barriers to entry, and profit rates for 1950-60 to determine whether the pattern Bain had discovered was compatible with a period of time that was not part of the Great Depression or of rapid post-war inflation. His findings supported Bain's results. Furthermore, Bain (1968) has asserted that advertising does inhibit entry:

> 'The product differentiation advantages of established firms loom larger than any other sources of barriers to entry, and especially large as a source of high and very high barriers ... This superiority of established firms in turn typically hinges in important or major degree upon the susceptibility of buyers to persuasion through heavy advertising or other sales promotion effort.' (1968, 281-282)

Schmalensee (1972, 243) however could find no evidence in support of Bain's conclusion. He further criticised the original Bain (1956) investigation on the grounds that it performed no tests of hypotheses; advertising was held to be a major source of entry barrier mainly when it

was intensive or when industry sources voiced the opinion that it limited entry possibilities. Stigler (1968) has also passed critical judgment on the Bain concept of limit pricing which is deployed to determine the heights of his barriers.

In Bain's 1936-40 study based on forty-two US industries, in the group of highly concentrated industries where the eight largest firms accounted for 70 per cent or more of value added, the average profit rate was significantly higher than in the less concentrated industries. A re-examination of these industries by Brozen (1971) showed that even if concentration had facilitated collusion initially this had been a short-term phenomenon because fifteen years later the high and low profit rates in these industries had moved back towards the average. Brozen's later work (1971) also showed that Bain's results were biased by a statistical error resulting from the incorrect assumption that industries were in long-run equilibrium.

There is an alternative view to that of Bain regarding concentration which does not rest on economies of scale and which, therefore, does not state that barriers to entry increase with concentration. McGee (1971), Demsetz (1973) and Brozen (1971) have all concluded that concentration is a measure of the relative efficiency of large firms. The higher industry concentration, the greater is the relative efficiency of the largest firms. In Demsetz's analysis profits do not arise due to output restriction or collusion, but to superior performance resulting from uncertainty plus luck or extraordinary insight by management.

> 'Since information is costly to obtain and techniques difficult to duplicate, the firm may enjoy growth and a superior rate of return for some time.' (1973, 3)

Ferguson concludes that if this view of concentration as a measure of the relative efficiency of large firms is correct:

> '... finding advertising expenditure positively related to concentration (and rates of return) does not indicate that advertising is a barrier to entry or a source of monopoly power.' (1974, 61)

Ferguson has also made some fundamental criticisms of the studies linking advertising with monopoly power: that these investigations have been conducted within an incomplete theoretical framework of the model of structure-conduct-performance, e.g. it has been questioned whether market structure is a good indicator or determinant of monopoly power; it is possible to question the economic significance of concentration-ratios because of shortcomings and inaccuracies in the data; there are serious doubts concerning the assumption of one-way causality of market structure and conduct; there is no generally agreed theory of collusion; there is no measure of the conditions of entry - the extent to which established firms can raise prices above marginal cost without attracting entry.

Since a theoretical basis on which to draw practical conclusions on the relationship between advertising and monopoly power does not appear to exist, and the variety of studies undertaken to assess the effects of advertising on monopoly and industrial concentration have either been inconclusive, or have been shown by later studies to have reached unjustified conclusions, some economists have suggested that there is no theoretical cr empirical basis for any public policy based on the presumption that advertising decreases competition (Needham, 1971; Ferguson, 1974).

C. Advertising and the Theory of the Economics of Information

As has been seen (Marshall, et al.) it has been conceded grudgingly that advertising may fulfil a useful role in providing information where buyers and sellers do not have perfect knowledge - even if the concept of what constitutes information is somewhat ambiguous. On the other hand, the assumption of perfect knowledge which is made in the conventional theory of the firm means that the acquisition of knowledge of prices or exchange opportunities in a perfect market is costless, so that knowledge is, as it were, a free good.

Since in the real world information about available products is not

a free good automatically available to anyone and everyone, a different way of considering advertising has emerged comparatively recently in the economics of information by concentrating on analysing the benefits which buyers of advertised products gain from advertisements as opposed to the traditional approach of considering advertising almost entirely from the viewpoint of the sellers of advertised products.

The seminal article by Stigler criticised the neglect in economic theory of the cost of search for information:

> '... information ... occupies a slum dwelling in the town of economics ... Mostly it is ignored ... And one of the information-producing industries, advertising, is treated with a hostility that economists normally reserve for tariffs or monopolists.' (1961, 213)

He illustrated his criticism by analysing one important role of advertising for buyers: the identification of sellers and the ascertainment of market price. The expansion of recruitment advertising over the past two decades has been an important factor, for example, in bringing job opportunities and current wages and salaries to the attention of job seekers, thus reducing the cost and time of search for employees. (Fulop, 1971, 65). In the absence of advertising, buyers must acquire information in other ways, or make decisions without it. In certain circumstances this may be more costly for buyers than the cost of resources devoted to advertising.

Furthermore, once there is an awareness of the cost of the search for information, it becomes possible to explain why buyers attach importance to 'reputation'; it economises on search because it denotes the persistence of quality. As Stigler points out:

> 'When economists deplore the reliance of the consumer on reputation ... they implicitly assume that the consumer has a large laboratory, ready to deliver current information quickly and gratuitously,' (1961, 224)

Johnson has also emphasised that information is not a free good, and maintains that this misconception arises as a result of the basic assumption of perfect knowledge in the theory of the firm:

> 'The approach of politicians and the general public to advertising, like that of economic theory, is still dominated by the idea that everyone knows what he wants.' (1967, 14)

Consequently, Johnson maintains that:

> '... Information is important, worth spending resources on acquiring, and advertising is only one of the many ways of providing information.' (1967, 14)

II Alternative Theories to the Theory of the Firm

In the neo-classical theory of the firm it has been seen that competition is used in a technical sense to classify market conditions according to the degree of control over prices exercised by producers or consumers. In this technical meaning of market situations, competition embraces only impersonal adaptations to given conditions, and it is assumed that the most wanted products, and the least cost methods and scales of production are known. Despite adaptations and modifications which have been incorporated in the theory to explain a variety of market conditions such as oligopoly, etc. the raison d'être of the theory has remained unchanged - a method of specifying the mechanisms by which resources are allocated in the market-place.

There are three major criticisms of the theory:

1. That its basic assumptions that the objective of the firm is to maximise net revenue, and that decision behaviour is guided by the precepts of utility maximisations do not accord with the behaviour of firms in the real world where the motives underlying behaviour are more complex and multi-dimensional, and where perfect maximisation would be too expensive and time-consuming to achieve in a world of imperfect knowledge for firms and consumers.

2. That the theory is inadequate because insufficient attention has been paid to the behaviour of the large corporation or firm which has become the norm over wide areas of industry as a consequence of technological developments, economies of scale, and the separation of ownership and control which stems from the growth of the joint stock company. These claimed defects have been tackled from two different viewpoints. First, the school of managerial economics (J. Downie, The Competitive Process, London, 1958; William Baumol, Business Behaviour Value and Growth, 1959; Robin Marris, The Economic Theory of 'Managerial' Capitalism, 1964). Secondly, by Kenneth Galbraith (1958, 1963, 1969) who adopted Marris' basic proposition that it was more accurate to regard the economy as

operating entirely on a managerial basis than the common practice of treating it as operating in the traditional manner of the theory of the firm. Concomitant with this tenet was the implication for public policy that attempts should not be made to revive artificially traditional forms of competition.

Galbraith, however, departed significantly from managerial economics with his assertion that the large corporation utilises advertising to control consumer demand, and thereby nullifies consumer sovereignty (there is, for example, a fundamental difference between Marris' explanation of how a new product is introduced to the market, and the assumptions made by Galbraith), and his doctrine that the 'countervailing power' of distributors should be utilised to control the power of the large corporation rather than legislation.

3. That the factors which are taken for granted in traditional theory, i.e. that there is perfect knowledge, that the shape of the demand curve is known, that consumer preferences are known - these are precisely the uncertainties which exist continuously in the real world, and which provide opportunities for firms and create competition. This theory of competition as a process rather than a situation has been expounded most fully by Kirzner (1973), but many of its components have been put forward by other economists as well.

(a) <u>Managerial Economics</u>

Managerial economics which describes and predicts the internal decision-making process of a firm is based on propositions which are directly related to two major criticisms of traditional theory. First, firms do not decide how much to produce by equating marginal cost with marginal revenue. As evidence, the difference between the economic concept of cost in the theory has been contrasted with the accounting concept of cost used in actual business firms.

Secondly, it is argued that traditional theory fails to view the firm as an organisation, and hence ignores the existence of such factors as management planning, budgets, standard operating procedures, and the cost of other components which should be included in the theory of a firm's decision-making process. (A. Papandreou 'Some Basic Problems in the Theory of the Firm', in B.F. Haley (ed.) A Survey of Contemporary Economics, Vol.2, 183-219, Homewood, Ill.).

These and other criticisms of managerial economists reflect the emphasis placed in the neo-classical theory to explain, at a general level, the behaviour of firms within a given market, and not the behaviour of individuals within a particular firm.

The first major revision of neo-classical theory to incorporate these criticisms was put forward by Baumol who concluded that firms do not devote all their energies to maximising profits but rather that as long as a 'satisfactory level' of profit is maintained a company will seek to maximise its sales revenue. In this theory, therefore, total sales revenue has been substituted for profits, and two decision criteria or objectives have been introduced - namely, a satisfactory level of profit and the maximum sales turnover. In other words, the firm is no longer viewed as working towards one objective alone, but is portrayed as trying to balance two competing and not necessarily consistent goals.

From this hypothesis Baumol drew important conclusions which it is claimed are more consistent with observed behaviour than those drawn from conventional theory:

1. Firms faced with an increase in fixed costs will either pass on these costs directly to the consumer in the form of higher prices or will try to reduce an expense over which they have some control, e.g. advertising expenditures. Conventional theory, on the other hand, asserts that changes in fixed costs should not lead a firm to alter either its output or its prices.

2. Baumol also maintained that:

> 'Sales maximization makes far greater presumption that businessmen will consider non-price competition to be the more advantageous alternative.' (1959, 76)

This conclusion is in contrast to neo-classical theory which asserts that businessmen will consider price cuts or increases as the primary mechanism for increasing profits; whereas observations of business behaviour do not support this view. On the contrary, firms appear to go to great lengths to set their prices at the same levels as their competitors, while devoting their competitive energies towards advertising, product differentiation, servicing, etc.

Although Baumol's theory appears more consistent with observed behaviour, it focusses primarily upon the behaviour of firms in the market-place. It did not consider the analysis and prediction of a firm's decision-making behaviour on price, output, internal resource allocation, and so on. As a consequence, market theories of the firm have been supplemented by Behavioural theories of the firm which seek to show how an organisation makes decisions on the basis of the information that is available at any given point in time. It is a theory of decision-making behaviour which has substituted the notion of a satisfactory level of performance for the neo-classical principle of maximisation. By abandoning maximising for the behavioural principle of satisficing, it is possible to add as many goals or objectives to the theory as is consistent with observed behaviour. (See R.M. Cyert, A.E. Feigenbaum and J.G. March (1959) 'Models in a Behavioural Theory of the Firm', Behavioural Sci., 4, 81;95).

A third strand in managerial economics is heuristic programming which seeks to incorporate into the theoretical model the selective, rule of thumb processes that humans employ in solving complex problems.

The theories of individual or organisational decision-making behaviour reveal a different working of the price mechanism in observed practice than those portrayed in traditional theory. If firms only maximise sales revenue subject to a satisfactory-profit constraint, or

behavioural theory of the firm, then firms no longer maximise any criterion function. Similarly, such theories are at variance with conventional theory that firms or individuals make decisions by maximising a clearly-defined decision function. Evidence collected, however, supports the hypothesis that individuals and organisations make decisions by paying attention to a limited number of objectives and by doing what they can to see that they meet these goals most of the time. Under this hypothesis the setting of prices is only one of a number of organisational objectives. As a result, a firm will only consider price alterations as one of the possible alternatives facing it at any point in time. A corollary of this conclusion is that changes in the prices of a firm's inputs will also not have the effects on their decision processes that are asserted by conventional theory.

These theories of complex organisations trying to satisfy many competing goals also have repercussions on the theories of market behaviour, e.g. oligopolists consider non-price competition to be the more advantageous. The behavioural theory of the firm also suggests that large firms, whether oligopolists or not, prefer to operate in a stable environment. One way to achieve this is to avoid price competition. On this premise, such a theory is unlikely to represent the market as a place where firms struggle fiercely to meet price competition. It would however provide a more accurate picture of the nature of competitive markets and of the forces that influence the behaviour of individual firms.

Managerial economics thus has different implications for economic policy than conventional theory which asserts that competitive pricing is the most efficient way to keep the prices of finished products as low as possible.

As Clarkson summed it up:

> 'When competitive pricing appears to have vanished and one or two companies dominate an industry, antitrust measures are invoked with the intent of restoring competitive pricing to that particular market. But if, as investigations of business behaviour suggest, the pricing decision is only

one of a firm's decision problems, then increasing the number of firms in the market may not have the desired effect. In other words, unless it can be shown that the number of firms in the industry has a direct effect on the prices that are set, it does not make much sense to invoke antitrust measures whose purpose is to increase the number of competing firms.' (1968, 66)

Marris put forward a more comprehensive account of the basic micro-theory of managerial economics developed by Baumol and Downie; in particular, he considered the ways in which corporate organisations develop quasi-higher objectives of their own and the means by which they pursue them.

Marris questioned one of the major assumptions of conventional theory - that the firm faces a static demand curve, the shape of which is determined over time by external factors, e.g. changes in tastes, changes in income. On this assumption price becomes the only decision-variable capable of influencing the quantity sold, although at a later date neo-classical writers added other variables such as advertising expenditure and/or quality variation. Marris concluded that none of these factors provide a satisfactory explanation of the existence and growth of the firm over a long period of time.

Marris started from an opposite premise to the assumption of the conventional theory, i.e. that the distinctive feature of the managerial capitalist corporation is its capacity to initiate its own growth. Furthermore, although growth of demand is created by the individual firm, it is subject to restraints arising from demand, from the need for finance, and from restraints which are not directly economic, e.g. staff training. According to this theory, the rate at which demand expands is dependent on policy decisions relating to diversification, prices and marketing expenditure. These factors, given the production techniques employed and the general level of internal efficiency, affect profitability. On the other hand, profitability is an essential element in determining

growth, because there is a close relationship between the rate of return and the maximum sustainable growth rate of capacity.

The Marris model for growth is divided into two: problems of management, and problems of economics. The former include making decisions on how the diversification rate, price policy, and other variables affecting demand should be set. The second part of the model deals exclusively with terms of growth rate and profit rate and valuation ratio. This model provides an explanation of why demand can be continued at differential rates indefinitely between individual firms. It also seeks to provide an explanation of why, even if internal efficiency varies between firms, the less efficient may continue in business for a very long time indeed.

(b) Management of Demand (Galbraith)

Although Galbraith agreed with the basic propositions of the economic theory of managerial behaviour he criticised the theory for its continued acceptance of the consumer sovereignty assumption of conventional theory, i.e. that firms were still subject to the constraints of the market, particularly the influence of the consumer. He contended that if those who put forward the economic theory of managerial behaviour had been prepared to accept the full significance of the abandonment by the modern corporation of the principle of profit maximisation, then they would also have realised that it was no longer subordinate to market influences, and consequently, that the concept of consumer sovereignty has become invalid.

Galbraith's main thesis is that since the modern corporation is no longer subordinate to market influences, the concept of consumer sovereignty is no longer a valid assumption in determining the behaviour of the large corporation. 'Consumer sovereignty as a pure case will not do'.

> '... the theory of the firm and how it maximises its revenue in the market has undergone endless refinement in recent

> decades. This theory assumes that the man who maximises the revenue gets the revenue or a compelling share. So he goes on a Wisconsin dairy farm. But this is not so in the modern large corporation where the management is on a salary and the beneficiaries are stockholders whom the managers have never seen. Although the large corporation, like the union, is far from new, it has never been assimilated into the main body of economics.' (1969, 410)

According to Galbraith the changed situation has been caused by the demands of technology, economies of scale, and the long gestation time of production which have led to the demise of the market; while the separation of ownership from control has caused control in most cases to pass from from the entrepreneur to the technostructure. As a consequence, the 'accepted sequence' of traditional economic theory, the flow of instructions by means of purchases from individual consumer via the market to the producer, is no longer valid. The mature corporation has the means to control prices, both of its raw materials and of its products. The producer reaches forward and controls the market and also the behaviour of the consumer, whom he purports to serve. This is what Galbraith calls the 'revised sequence'.

Galbraith, as a result of the above analysis, puts forward three major propositions:

1. The main purpose of large firms is to make themselves larger;
2. Once they have achieved a great size their security is assured;
3. Firms must have sufficient control over their markets in order to reap rewards.

Freedom from risk is ensured by planning, by control of prices, and control of the amount sold. In particular large size allows advertising, a well-nurtured sales organisation and careful management of product design which can help to ensure the needed customer response. By the deployment of these weapons:

> 'Means can always be found to keep exercise of consumer discretion within workable limits.' (1969, 212)

By these means, it has become possible for large firms to be autonomous planning units with sufficient control over their markets to avoid the vagaries of consumer demand and the entry of potential competitors.

It is unrealistic, according to Galbraith, to attempt to break the autonomy of such firms by policies designed to restore competition because these firms operate in industries in which the economies of scale are decisive and where size is a condition for innovation. The strength of such concerns depends ultimately on the advantages to be derived from advanced technology and from the expenditure on research and development needed to promote it. These advantages can be secured only if operations are conducted on a large scale and if there is freedom from risk. Where large distributors confront large manufacturers, we have an illustration of the doctrine of 'countervailing power'. For the defence of the public interest rather than trying to restore old forms of competition in industries one must rely in such circumstances on the bargaining power of large customers.

In the Galbraith model advertising is a major factor in managing consumer demand, and thus in nullifying consumer sovereignty. He believes this situation developed because the industrial system requires a mechanism for making men want what it provides. However, this mechanism would not work - wants would not be subject to manipulation - had not these wants been dulled by sufficiency. In other words, advertising is so effective because the basic needs of consumers have been met.

(c) <u>Competition as a Process Not a Situation</u>

A fundamental attack on the neo-classical theory of the firm has been expounded by Kirzner (1973) for its mechanistic and therefore inaccurate analysis of competition.

In this view, the major weakness of traditional theory is the concept of competition as a market situation which means that there is a mechanistic allocation of resources in the market-place. In particular, it is argued that the attempts in traditional theory to incorporate monopolistic and imperfect competition in an equilibrium theory has led to

a misleading view of these forms of organisation, as well as of advertising. In perfect and imperfect competition, and oligopoly, all three theories focus on the short-run and examine static competition in which incomes, tastes, technology are assumed unchanged. Kirzner believes that a more accurate picture of economic activity can be obtained by regarding competition as a market process

> 'which depends on the freedom of those with better ideas or with greater willingness to serve the market to offer better opportunities'. (1973, 98)

In this alternative view of competition as a market process the chief departure from conventional theory is in the role of the entrepreneur:

> 'His [the entrepreneur's] role only become somehow identified with movements from one equilibrium position to another with "innovations" and with dynamic changes, but not with the dynamics of the equilibrating process itself ... [Students of price theory] have completely overlooked the role of the entrepreneur in exploiting superior awareness of price discrepancies within the economic system.' (1973, 27)

This omission arises, according to Kirzner, because conventional theory deals with equilibrium in which there is no room for the entrepreneur. When the decisions of all market participants dovetail completely, so that each plan correctly assumes the corresponding plans of the other participants and no possibility exists for any altered plans that would be simultaneously preferred by the relevant participants, there is nothing left for the entrepreneur to do.

This view of entrepreneurship and competition has a close similarity with that of another 'Austrian' economist, Schumpeter (see also p. 50). Schumpeter has defined the role of the entrepreneur as:

> '... to reform or revolutionise the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganising an industry.' (1967, p.132).

Although Kirzner acknowledges the similarity between his views on the role of the entrepreneur with those of Schumpeter, he also stresses the important difference between them:

> 'For Schumpeter the entrepreneur is the disruptive disequilibrating force that dislodges the market from the somnolence of equilibrium; for us the entrepreneur is the equilibrating force whose activity responds to the existing tensions and provides those corrections for which the unexploited opportunities have been crying out. (1973, p.127)

Kirzner's major criticism of conventional theory is, however, reserved for the theories of monopolistic and imperfect competition which emerged as a result of extensive dissatisfaction with the theory of price as it had developed until the 1920s, and its apparent failure to correspond with characteristics of the real world. For Kirzner, the major weakness of these theories is that they incorporate only minor modifications of perfect competition: they still depict an equilibrium situation, they are still based on given and known demand and supply curves, and they only differ from the theory of perfect competition in the shapes attributed to these curves.

> 'Thus replacing the old equilibrium theory by a new equilibrium theory preserved the theoretical dissatisfaction of the old theory while failing to offer the simplest explanation of thse real-world phenomena it left unaccounted for.' (1973, p.114)

It has been this failure to change fundamentally the basic assumptions of imperfect competition from those of perfect competition which has led, according to Kirzner, such phenomena as advertising and product differentiation to be invariably identified as monopolistic elements to the market.

> 'whereas if competition is looked at as a process they would be seen as strategic weapons in the competitive arsenal of rival entrepreneurs.' (1973, p.210)

(III) Replies to the Critics of Conventional Theory

(a) Conventional Theory of the Firm - a Technical Model Only

The main response of economists who believe that the theory of the firm has an important role in economic analysis to the criticism that it is divorced from reality is to point out that it is intended as a technical model designed to explain competition, price and the allocation of resources. Consequently, as an abstract model of industry conceived by economists for theoretical reasoning, it is not surprising that it should diverge from reality, and should not therefore, be taken at its face value.

As Johnson put it:

> 'Some of the things economists talk to each other about are not suitable for airing in public.' (1967, p.9)

Hallett has pointed out:

> 'An economic model should not be confused with the reality it seeks to explain.' (1967, p.8)

And Allen has commented:

> 'Yet no one believes nowadays in that proposition (consumer sovereignty) in its extreme form except as an analytical device.' (1969, p.30)

It is also widely recognised that since the only form of competition analysed in perfect competition is price competition, other forms of competition such as sales promotion are automatically excluded from the analysis. It would not however be concluded that these other forms of competition are necessarily against the interests of consumers unless perfect competition is a practical alternative.

On the other hand, many supporters of the neo-classical theory of the firm would not regard criticism of the model of perfect competition as damaging, but would argue that it provides a limiting case against which real situations can be compared and evaluated. Thus it could be argued that in a certain industry at a certain time the situation is more competitive (i.e. closer to perfect competition) than in another. Further, it can be said that certain industrial practices are or are not

conducive to approaching perfect competition. On such an analysis advertising, for example, would be regarded as 'second best' and only to be tolerated because of imperfections in the market, i.e. imperfect knowledge. Similarly, the emphasis in perfect competition on price competition has led to the conclusion that any other type of competition can only be a poor substitute. It has been argued, for instance, that many types of non-type competition were introduced as a result of resale price maintenance, and that once this was abolished other forms of competition, apart from price, would tend to disappear. An example of this view is that put by Lewis (1949):

> 'Coupon trading is just an adjunct to non-price competition between manufacturers and to manufacturers' advertisements; and the trading stamp is primarily the product of resale price maintenance. If these sources of market imperfection were removed most of this form of trading would disappear.' (149)

In other words, although the model of perfect competition has been devised for theoretical reasoning only it has often been regarded as a goal towards which firms should aim. Yet as Wilson has commented.

> 'Perfect competition is not a norm, and the fact that it has been taken for one is a remarkable example of the way in which we can mislead ourselves with our own emotive terminology. Indeed the expression 'perfect competition' has probably done more to darken counsel than any other in modern economic literature ...'. (1962, p.119)

(b) <u>Organisation of the Firm Included in the Economics of Industry</u>

Perhaps rather surprisingly, the literature on the economics of industrial structure and organisation which studies the behaviour of the firm in the real world has made little attempt to integrate the main areas of the subject - size, entry conditions, concentration, vertical integration and diversification, and decision-making processes - with conventional theory. The reason may be that decisions as to the nature and extent of vertical integration and diversification are among the key strategic decisions taken by firms, as are those relating to total size

and to rate of growth, whereas these decisions are relatively unimportant in conventional theory because the firm is limited to a single product, and the abstraction introduced into the theory provide it with little room for manoeuvre.

Yamey has pointed out how the conventional theory of the firm and the economics of industrial structure co-exist:

> 'The omission of strategic decisions from the scope of theoretical formulations is not necessarily a defect from the point of view of the uses to which the theories are put. But the omission has meant that the body of knowledge and analysis about these decisions has had to find a home in the more applied branch of economics known variously by such names as the economics of industry, the structure of industry, or industrial organisation.' (1973, 8)

Despite this separation of the theory of the firm from the economics of industrial organisation, when investigations are made into the relationship between advertising and competition (pp.23-5) they start from the premises of conventional theory.

(c) Concept of 'Workable' Competition

Some specialists in the economics of industrial structure (Yamey, (1973), p.9; Allen (1969), p. 92; Johnson (1970), p.5) relate the strategic decisions made by firms to explain their actions to the concept of 'workable' competition. This concept of competition has developed parallel with the traditional theory of the firm to explain how under conditions of oligopoly and imperfect competition it is possible for competition to flourish.

The concept of 'workable' competition is based on the following precepts:

1. That oligopoly is unavoidable in many industries. It should not therefore be regarded ipso facto as inferior competition because some elements of imperfect competition are inevitable such as large-scale production, variations in consumer preferences and spatial monopolies;

while other elements such as product improvements, and sales promotion and advertising designed to inform or persuade consumers to try new commodities or services may be considered desirable.

2. There is no necessary relationship between a large firm and monopoly. There can be large size without monopoly; there can be monopoly without large size.

3. Competition is wider and more pervasive than those who try to apply the models of perfect and imperfect competition are prepared to concede. This mistake arises from considering competition as existing only between firms in an industry and neglecting the competition between the products of near monopolists; and from taking a short-term view of the economy rather than a dynamic view over time in which monopolies are sooner or later broken up by new competition.

4. Criticisms of oligopoly and other forms of imperfect competition should be reserved for the avoidable elements, and these should be distinguished clearly from the inevitable elements.

The concept of 'workable' competition was first propounded at the beginning of the century by Clark who believed that trusts were efficient and inevitable and also that potential rivals were an efficient check upon them:

> 'When prices are unduly high, owing to the grasping policy of some trust, what happens? New competition usually appears in the field. Capital is seeking outlets, but it has become hard to find them ... The mill that has never been built is already a power in the market: for if it will surely be built under certain conditions, the effect of this certainty is to keep prices down.' (1901, p.13)

Thus potential competition lurking in the background is seen as the chief constraint on the policies and prices of firms. Clark's fear was that restrictive practices (selective price-cutting, pre-emption of dealers, etc.) would stop potential competition, and he wished to restrict public policy to eliminating such practices.

Half-a-century later Schumpeter stressed that the competition 'which counts' is not traditional price competition but the importance of

widening consumer choice and the response to changing consumer preferences by competing firms.

> '... the competition from the new commodity, the new technology, the new source of supply, the new type of organisation ... competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the output of existing firms but at their foundations and at their very lives.'
> (1950, p.84)

Hence, according to Schumpeter, the market was characterised by a 'perennial gale of creative destruction' which a monopoly of the original product could not withstand.

According to Mason the essence of 'workable' competition is

> '... the availability to both buyer and seller of alternative courses of action.' (1957, pp.178-9)

To this definition of an imprecise concept, Jewkes has enumerated a number of conditions, which provide a means of measuring the degree of competitiveness in the industrial system:

> 'If firms, otherwise independent, do not make agreements on prices, investment, output or the allocation of markets; if there is an ever-widening range of goods and services to the consumer; if for most products there is a close substitute and fresh substitutes constantly make their appearance; if the consumer is actively exercising his choices, and thereby encouraging the growth of the more efficient suppliers; if in every industry there are enough producers to make it difficult for them to arrange not to compete, but few enough producers to make it clear to each that he has rivals on his tail; and if the firms that lose money decline and those that make profits grow.' (1977, pp.40/41)

Furthermore, Jewkes maintains that there are two supporting statistical tests which may be applied to determine whether 'workable' competition exists in an oligopolistic industry. First, whether prices are fluid and flexible or 'administered' and rigid, and thus unresponsive to changing demand and supply. Secondly, whether the market shares of the firms remain unchanged.

The processes by which a form of 'workable' competition may come about in practice has been described by Allen:

> 'A monopolistic or oligopolistic organisation may be destroyed by the cheapening of communications, the

> reduction in barriers to international trade, the standardisation of the product, or the appearance of new sources of supply within the former market area. More generally, with the proliferation of products that accompanies economic progress, the gaps in the chain of substitutes are narrowed, and competition between industries may become keener even if competition within particular industries wanes ...' (1970, p.92)

Thus in this broader and more dynamic concept of competition there is the presumption that imperfect competition does not automatically lead to weak competition, higher prices, and higher profits. (Where there are so many alternative choices open to consumers, the concept is also at variance with Galbraithian view that consumer demand can be managed through advertising.)

Furthermore, this concept of competition leads to a rejection of the presumption underlying much public policy that monopolist behaviour automatically leads to a misallocation of resources.

Part 2: THE CONSUMER IN THE MARKET

(I) The Theory of the Firm and Consumer Behaviour

Consumer behaviour has been defined by Engel, Blackwell and Kollat as:

> 'Those acts of individuals directly involved in obtaining and using economic goods and services, including the decision processes that precede and determine these acts'. (1978,3)

In many respects the study of the consumer in the market begins where the conventional theory of the firm ends:

1. Static economic theory assumes for the purposes of analysis that tastes and preferences are given. The traditional theory of the firm therefore ignores the fundamental question of how product and brand preferences are formed which is the major problem facing firms in the real world. Furthermore, theory provides little guidance on how consumers will react to new products and to quality variation. As Lancaster (1971) has pointed out:

> 'Traditional theory is forever being forced to interpret quite common real-life happenings, such as the effects of advertising in terms of 'change of taste', an entirely non-operational concept since there is no way of predicting the relationship between the preference before and after the change.' (344)

and goes on to assert:

> 'Perhaps the most difficult thing to do with traditional consumer theory is to introduce a new commodity....in consumer theory we have traditionally had to throw away our n-dimensional preference functions and to replace them by totally new n+1 dimensional functions, with no predictable consequences.' (360)

2. In conventional theory price is a dominant variable, and the way demand reacts to price is determined by the degree of elasticity. In the real world, many other factors apart from price influence demand. Price has achieved a pre-eminent position in economic theory for two reasons: First, prices are relatively quantitative and unambiguous, whereas other non-price variables are less amenable to measurement. Secondly, the theory of the firm is a comprehensive theory of consumer welfare whereby in an economy characterised by flexible prices maximum economic efficiency and welfare may be achieved.

Not only are non-price variables important to consumers and therefore influence demand, but, in addition, the effect of price on demand has proved difficult to measure; prices are not always flexible; price is not an unambiguous indicator of value for money; and price changes can cause changes in consumer expectations of product and quality.

3. In perfect competition the implicit assumption is made that products are homogeneous, and when product differentiation occurs as under imperfect competition it is assumed to have been caused unnecessarily by advertising and branding. Although more sophisticated economic theory recognises product differentiation as a competitive variable, the multi-dimensional complexity of products precludes viable analysis, and economists have found it necessary to suppress such variables in developing theories of competition. In theory therefore the product is usually viewed as a homogeneous entity. In practice, products may be differentiated by any one of a multiplicity of variables as indicated by the following definition of Chamberlin (1957):

'Those aspects of the good or service exchanged whether arising from materials, or ingredients, mechanical construction, design durability, taste, peculiarity of package or container or service. ...all products beyond the raw material stages are highly variable for the most part on a continuous scale'.

Stevenson (1968) emphasised this point by defining a product as:

'Everything the purchaser gets in exchange for his money.'

and listed the following 'extras' associated with the physical product: advisory services; after sales service; replacements; designing and planning services; deliveries; credit; guarantees; credit.

(II) Consumer Behaviour Theories

That there are many other variables besides price which affect demand is the starting point of the study of consumer behaviour. The study of these influences has led to the emergence of a relatively new discipline - consumer behaviour - which has drawn on a variety of sources, especially the behavioural sciences in order to develop specific theories of its own.

A major purpose of buyer behaviour theory is to increase our understanding of the consumer. Over the last few years emphasis has been placed on consumer decision processes: the problem is to understand what happens in the buyer's mind from the time he first receives impressions about products until he makes his purchasing decisions.

Almost all the literature on consumer behaviour dates from the post-war period. Because consumer behaviour is still a relatively young discipline, all the models so far developed contain considerable scope for revision and development. For the most part buyer behaviour has been studied from a variety of theoretical perspectives

which have resulted in a number of interesting but partial explanations. e.g. Lunn:

> 'No single theory or model should be expected to be fully comprehensive at this state of our knowledge.' (1971,54)

There exists not only a lack of comprehensive laws on consumer behaviour which are generally accepted, but also a great diversity in the concepts used to describe consumer behaviour which Sheth has summed up:

> 'What we really have, then, is a set of insular hypothetical concepts and a set of peninsular intervening variables reflecting a lack of formal science. What is more, they have lived an independent existence. Indeed, this reviewer has more than once felt that the situation resembles the seven blind men touching different parts of an elephant and making inferences about the animal wnich differ and occasionally contradict one another.' (1967,13)

Research into buyer behaviour theory or consumer models has taken three main forms: a priori; empirical; and eclectic, each of which has contributed in some degree to a greater understanding of consumer behaviour, but each of which has limitations and is the subject of considerable controversy.

A. a priori research

In the a priori approach concepts and theories have been introduced from three other disciplines, mainly the behavioural sciences, and explored for their value in understanding the consumer. Since consumer behaviour is a particular aspect of general human behaviour, the strength of the a priori approach

lies in its attempt to harness existing knowledge and insights from other disciplines, and thus to seek explanations by attempting to fit consumer behaviour to previously developed theoretical frameworks. As Kotler has commented:

> ''Depending upon one's scientific predliection there is the Marshallian buyer, Pavlovian buyer; Freudian buyer, Veblenian buyer and Hobbesian buyer. Less grandiose but equally interesting new breeds of buyers can be formulated, such as the Festinger buyer (Festinger, 1957), Riesman buyer (Riesman, Glazer and Denney, 1956) and Rogerian buyer (Rogers 1951). It should be recognised that all thes models of buyer behaviour are true to some extent, and yet it is incomplete. Buyer behaviour is so complex that theory develops in connection with particular aspects of the phenomena.' (1970,197).

Other well-known examples of the intensive borrowing from the behavioural sciences include Howard's learning theory, Bauer's perceived risk theory and attitude theories such as those of Festinger and Fishbein and several personality theories. To take two examples:

(a) the theory of 'cognitive dissonance' put forward by Festinger states that two elements of knowledge are dissonant if they are contradictory and that dissonance is uncomfortable with the result that an individual will actively avoid situations and information which might increase dissonance.

Some experiments carried out by Festinger and others refer to the exposure to information and attitudes held after a decision. For example, it was pointed out that most decisions involve dissonance,

in that the alternative will have had some attractive features, and the alternative actually chosen will have had some unattractive features. It was therefore predicted that after a decision is made the attractiveness of the chosen alternative will increase, and the individual will also seek information justifying the choice. This was borne out by the example of car owners who were found to notice and read advertisements about the cars they had recently purchased more than advertisements about other cars.

This 'reassurance' theory has however been criticised on several counts, e.g. Lowe Watson (1969):

> ' ...Such an explanation seems plausible in a case such as the purchase of a motor car (the example quoted by Festinger). A motor car is an important possession to most people and the role of ownership is one in which they may take some pride. So it is not unreasonable to suppose that the purchaser might actively seek evidence and reassurance to justify so important a choice. But can we so readily assume that the housewife is equally anxious to justify her choice of a brand in a hundred and one relatively unimportant household products?' (1971,322)

(b) A number of alternative personality theories have been advanced based on psychological concepts: neo-Freudian theory; stimulus-response theory; field theory; and trait theory. These have also been strongly criticised for their weak association with consumer behaviour. But this approach has been strongly criticised, e.g. Foxall (1976):

> 'The notion that people reject information or behaviour patterns which conflict with their current preceptions also promised some

years ago to assist marketing decision making. Festinger's cognitive dissonance theory (produced) only the assertion that it is frequently necessary to reassure purchaser of expensive, occasionally-bought items that they have made the right decision .....and even that has been questioned. No method of generating dissonance that leads to a purchase being made has been put forward to date.' (1976,6)

Although the behavioural sciences have helped to shed valuable light on the question of why consumers behave as they do, the evidence suggests that they are far from perfect even for that purpose.

Some of the limitations of the a priori approach have been summed up by Lunn (1974):

'Many of the concepts adopted are still somewhat speculative. They have often been developed in contexts remote from consumer behaviour.... Moreover, they have usually been developed to account for restricted aspects of human behaviour, e.g. learning, and perception.' (1974,50)

B Empirical approach

While a priori researchers have sought explanations by attempting to fit consumer behaviour to previously developed theoretical frameworks, empirical research has taken consumer behaviour as its main focus of study. This approach has ~~[illegible]~~ (attempted) to derive laws from observations of patterns and regularities in this behaviour, for the most part by using consumer panel data.

The following are two well-known examples of empirical research, viz:

a. Brand loyalty, and b. Brand share prediction.

I Brand Loyalty

There is the widespread assumption in economic theory that advertising can build up durable brand loyalty towards a product, although with no specification of the time element. In marketing, it had until comparatively recently been assumed that advertising could convert users from one brand to another, although the concept of 'brand loyalty' has been imprecise, e.g. it has been variously defined in terms of brand choice sequences, proportion of purchasers, repeat purchase probabilities, and brand preference over time.

Brand loyalty has been extensively investigated (Achenbaum (1972), McDonald (1970), Treasure (1973), Joyce (1975), King (1980), and in particular by Ehrenberg et al (1966, 1969, 1972)) and the general conclusion reached that with many frequently purchased consumer goods most people have a short list of brands which they find acceptable, and they buy the individual brands from this short list in an irregular way at different frequencies.

Ehrenberg's analysis of consumer buying behaviour in a number of stable but heavily advertised markets has produced results which are not consistent with the theory that advertising converts users from one brand to another. He has shown that in such markets people tend to have a very stable multiple brand pattern of purchasing, i.e. they regularly buy a number of brands with different frequencies, and these purchasing patterns are systematic and predictable. This evidence appears consistent with the hypothesis that each buyer has a pattern of brand preferences reflected in the frequency with which

he or she buys each brand, and that these preferences change relatively slowly over time.

Lowe Watson found support for this brand preference hypothesis in one of the markets studied by Ehrenberg, viz. the petrol market. He suggests that while studies of consumer behaviour in relation to major purchases, e.g. central heating installation show that the period of 'search' may be quite prolonged, with relatively unimportant and frequently purchase consumer items 'trial' may take place (either deliberately or fortuitously - as a result of limited availability of alternatives perhaps) without the relationship ever reaching the state of 'preferred brand.' This leads him to conclude:

> 'We can interpret Ehrenberg's description of multiple brand purchasing in terms of a series of relationships with the available brands, some frankly experimental, others reflecting varying degrees of acceptance in terms of the purchaser's needs. This would lead to the situation of varying pre-disposition or probabilities of purchase observed by Ehrenberg.' (1977,329)

However, the validity of Ehrenberg's conclusions have been questioned on the grounds (1) that it does not sufficiently employ the behavioural sciences; (2) that it deals with consumers in general rather than the individual consumer, i.e. do not know if the consumers who bought certain products in one of his 4-week periods are the same consumers who are buying in a later period; and (3) one of the major drawbacks of using consumer panel data is that it cannot be considered valid for a period longer than a year because of the changing composition of the panel.

Joyce (1967) points out that there are products where the multi-brand hypothesis may not apply, and where the consumer generally only buys one brand, unless or until there is a definite 'switch' to another brand. Where only one function is to be performed by the product the consumer is more likely to find a favourite brand and continue to buy it until given good reasons to change. e.g. probably cigarettes, toothpaste and razor blades.

In the view of Joyce:

> 'Multi-brand purchasing is more likely to be found where the products are physically somewhat different and where they are used to perform different functions (e.g. washing powders, for different types of wash), or where the consumer buys different brands to get variety (e.g. food and drink).' (1975, 219)

With these types of products Joyce concludes that advertising can work just as much by persuading people already buying a brand to devote a higher proportion of their total purchase to that brand, than simply converting non-buyers into buyers.

Treasure (1975) uses data from the British Market Research Bureau's Target Group Index (a continuous survey of 50 product fields which include food and drink, washing powders, cosmetics, razor blades and analgesics, but exclude durable consumer products, and some 25,000 interviews a year asking people about the brands they use over a six-month period) to illustrate that the buying of several brands is common in most of these product fields and in many it is the general rule. The results of the survey indicate that products where less than about 40 per cent of users buy more than

one brand is exceptional.

From this evidence Treasure concludes:

> '...In the kind of markets in which advertising money is spent, consumers typically buy more than one product... Purchases made by a person for personal consumption for that reason, are more likely to be single brand than multi-brand, but such purchasing behaviour is relatively uncommon.' (1975, 266)

Treasure, therefore, believes that the most useful picture one can have of a housewife's purchasing behaviour is that she carries around with her not a passionate devotion to a single brand, but a mental list of several 'purchaseable' brands which meet her requirements. (This is similar to the 'evoked set' hypothesis put forward by Howard and Sheth (1969) which is a subset of a few brands from a product field which a consumer has available in her mental luggage and from which she makes her choice of purchases.) The housewife buys several brands over a period of time (6 - 12 months) for three main reasons. First, because she has to meet differing requirements from within her family; secondly, because the brands though similar are used in slightly different ways; and thirdly, because she likes to have a choice of brands in stock.

Furthermore, analyses over periods of 6 - 12 months of consumers patterns of brand use collected either from sources such as the Target Group Index or from records of actual purchases over time in consumer diary panels confirm that most alterations in sales turnover occur through changes in the frequency of purchasing of those who have bought before in the preceding period of time, and only a small

part through purchases by people buying for the first time. Analysis of data from the Target Group Index also revealed that, in general, brands with a major share of a market differ from those with a smaller share not primarily because the buyers of the former are heavier buyers of the product per se, but because these buyers tend to devote a greater share of their purchases in the product field to that brand rather than to others.

Like Joyce, Treasure therefore concluded that sales of a given brand may be increased not only by 'converting' new consumers to the brand, but by trying to persuade existing users - those who use it at least occasionally - to use it more frequently. This does not require them to increase their total purchases of the product, but to persuade them to devote a larger share of their purchases to this particular brand. According to Treasure, it follows that from this analysis of consumer behaviour in many product fields, that the advertising of such products is being seen by housewives who already have personal and recent experience of using or consuming the product being advertised.

In a survey undertaken by McDonald (1970) into the relationship between purchasing patterns and exposure to advertising, similar findings about consumer purchasing behaviour emerged. There was, for example, a high degree of regularity in buying behaviour. Previous evidence that most buyers tend to buy only a few brands and repeat them was strongly confirmed; most housewives tended to have one favourite brand and a number of other brands which they bought less frequently; brands of varying size within the product field show similar frequency of purchase distributions; the buyers

who buy at the most common frequency for a product field are the regular buyers who buy only one or two brands.

In a further study King (1980) has demonstrated from a survey of 250 households the relatively small degree to which housewives remain loyal to one brand over the short period of three months - even in what is regarded as a conservative market, that of tea.

Table 1

'Brand Loyalty' Over Three Months

Product	Percentage of purchasing households who bought:		
	1 brand only	2 brands only	3 or more brands
Tea	50	26	24
Toilet paper	41	26	33
Washing powder	32	33	35
Breakfast cereals	19	33	48

Source: JWT diary study, MEAL, Mintel

In order to assess whether the degree of brand loyalty was related directly to advertising expenditure, the advertising/sales ratios for these 4 products in 1977 were ascertained, viz: tea 2½ per cent; toilet paper ½ per cent; washing powder 4 per cent; breakfast cereals 4½ per cent. At least for these four products there appears to be no particular positive relationship between the advertising/sales ratio and 'brand loyalty'; in these particular examples there appears to be an inverse relationship which depends on the characteristics of the product category.

King further maintains that it is rare for just one brand to be purchased over a long period. Over a 1-year period some 10 per cent of the buyers of a brand buy that brand alone; and they tend to be particularly light buyers of the particular product.

2 Brand share prediction

A feature of test marketing research on new products is that consumer purchases of the new product generally build up to a peak and then decline before reaching an equilibrium position. This typical pattern of consumer buying of a new brand has been investigated to achieve better understanding of the reaction of consumers to a new product, and to help firms be in a better position to predict at an early stage the potential sales of a product. This is necessary because of the high failure rate of new products, viz some 60-70 per cent that are tried out in test markets are never introduced nationally, and of those which are many survive only for a short time, e.g. of 400 new food products introduced nationally in 1965, 49 per cent had disappeared from the shops by 1969; 69 per cent by 1973, and 78 per cent by 1975. (Kraushar, Andrews and Eassie)

Davis (1964) showed that in the test marketing of 44 packaged products - groceries and chemists goods - the typical pattern of consumer sales for new brands could be divided into three time periods.

In the first three months, particularly as a result of the growth of distribution as well as advertising and sales promotion, sales rise rapidly as consumers try out the product. During the second time period - from approximately the third to the sixth month - sales decline from their initial peak, this decline depending on the degree to which

the new brand satisfies buyers. The evidence is that the percentage drop in sales is directly related to the brand itself, e.g. it is approximately the same in each area of the country, irrespective of weight of advertising. In the third period, after the sixth month, sales remain more or less stable. Davis derived two 'rule of thumb' guides from his research:

1. If at any stage during the initial build-up sales exceed a rate twice as high as the stable sales target level, the probability is about 3:1 in favour of the target being met or exceeded.

2. Unless peak sales exceed the target level for stable sales by at least 50 per cent, the probability is about 3:1 that the product will fail to maintain target sales on a long-term basis.

The results of this research were derived from aggregated sales curves. Consumer panel data which records individual patterns of behaviour provide similar results.

Parfitt & Collins (1974) used data from analyses of the Attwood Consumer Panel results in Great Britain after 1960. When the progress of the two new brands A and B was measured, in their first two months on the market many households were prepared to try them (in these two examples 3 million households); then the rate of gaining new triers slows down; finally, after about 6 months, it becomes a very gradual process, with gains of only about 1-2 per cent of households per year.

With these two brands, A was successful, while B was a failure. Initially, the launch of the two brands was almost equally successful

because after three months 19 per cent of households had bought Brand A and 15 per cent had bought Brand B. However, between the third and sixth month only about 2 per cent more households were prepared to try Brand B, compared with an extra 6 per cent prepared to try Brand A.

However, the factor which determined the eventual success of Brand A and the failure of Brand B was in their respective repeat-buying rates. Sixteen weeks after the average household which had tried Brand B had bought it, it represented only 6 per cent of that household's purchases of the product type. The figure for Brand A was at 16 per cent, nearly three times as high. Enough households try it initially to make it a potential success, but they do not go on buying it often enough. The permanent success of a brand depends on the willingness of consumers, once having tried it, to continue purchasing it, as Parfitt and Collins:

> '....it should be recognised that a substantial proportion of brands do not reach satisfactory share levels and are withdrawn.' (1974, 88)

Thus studies of the development of the purchases of new brands show that the ability to sustain repeat buying among those who have tried the brand is often the critical feature in the success or failure of the launch.

The evidence from the study of brand failures from many different sources (e.g. J. H. Davidson (1976); Nielsen (1965) (1973)) is that the two factors which distinguish success from failure because this is what determines the repeat buying rate are a product with better

performance and distinctiveness, while price is not of such crucial importance.

King (1980):

> 'Very few new brands are actually disliked; the problem is far more often one of indifference.' (1980, 20)

Furthermore, the relative importance of distribution and word-of-mouth as channels of communication which contribute to the success of a new product compared with advertising may be seen in the results of a survey which asked housewives how they had found out about new products they had recently tried.

Table 2

How Young Housewives Found Out About Nre Products Recently Tried

% of married women between 16-43 saying:	
Saw in shop	43
Recommended	25
Advertising	18
Free sample	9
Other answers	8

Source: JWT New Housewife Survey 1967

C Eclectic Research

Until the middle of the sixties a priori and empirical research

formed the basis of consumer behaviour theory. More recently, there has been the emergence of comprehensive theories of buyer behaviour. Basically, this attempts to incorporate the strengths of a priori and empirical research but to avoid their weaknesses. The cornerstone of the eclectic approach is that psychological and sociological concepts should be brought together in a common framework. Its distinguishing feature, therefore, is that it attempts to synthesise those theories, concepts and findings in the various behavioural sciences which appear relevant to consumer behaviour with market research findings, practical and academic. (Andreasen, 1965; Engel, Kollat and Blackwell, 1968; Howard and Sheth, 1969; Nicosia, 1966; Sheth, 1972 and 1974). The strength of this approach lies in the comprehensiveness of its perspective, but brings with it the danger of undue complexity i.e. dealing with too many variables and inter-relationships.

A characteristic feature of the eclectic approach is the emphasis given to decision processes which both precede and follow the purchasing act itself. Nicosia is one of the pioneers of the eclectic approach, and is typical in representing the consumer as: purposive, seeking to fulfil certain goals through purchasing behaviour, and going through various decision processes which help him to at least approximate to some optimum solution; secondly, he uses the notion of the funnel, i.e. that the consumer's predisposi-tions move from generality through the search and evaluation of alternative products, and culminate in the selection of one particular brand. Thirdly, he stresses the importance of the concept of feedback, i.e. the effect of the experience of purchase and use upon consumer predispositions towards particular products.

This work has been criticised on the grounds that the search and evaluation process as represented is over-rational and whilst it may be applicable to infrequently purchased expensive products, it is less relevant for low cost goods which are purchased frequently. A further criticism is that the definitions of attitude and motivation are unsatisfactory.

A second major eclectic work is that of Engel, Kollat and Blackwell who have devised a decision process model similar in many ways to that of Nicosia. A specific criticism of these researchers is that as with Nicosia, the search and evaluation process is portrayed as highly rational. Finally, Howard and Sheth has produced a comprehensive model of the consumer which includes a wide spectrum of variables and their inter-relationships, and attempts a detailed integration of theoretical positions from several behavioural sciences. Besides focussing on the individual consumer, as in the other models, and seeing the decision process as the matching of products to the consumer's motives, and stressing the importance of feedback, i.e. the effects of the purchase act and usage experience upon consumer predispositions towards particular products, they also consider the dynamics of the buying process by distinguishing between different kinds of buying problems - extensive, limited and routine - that the consumer is trying to solve.

This model has already guided research in a variety of product fields and some of its propositions have been rigorously tested. These tests, have, on the whole, provided favourable support for the theory

Farley + Ring (1970) have also (pointed out) ~~indicated~~ certain weaknesses in the measuring instruments. Nicosia regards this weakness as underlining the need to combine concepts and methodology with more accuracy.

At present there is no generally accepted comprehensive eclectic theory of buyer behaviour.

III Ad Hoc Market Research

Owing to the complexity of human behaviour, the relatively early stage in the development of buyer behaviour theories, and the consequent shortcomings which to date exist in these theories, firms which are considering marketing a new product continue to rely on ad hoc investigations into consumer behaviour using standard market research techniques, i.e. product and taste tests, price and promotion tests, and test marketing in order to try and ensure that the product will be acceptable to consumers. During the course of such tests the original product concept will often be modified and adapted as a result of their findings.

The following eight case histories of a selection of products, a service, and a retail firm illustrate how new products are brought to the market, the background conditions which influence how particular products are marketed, the competitive situation, the relative employment of different types of promotions, and the relative importance of different aspects of marketing, (e.g. advertising, compared with distribution) under varying market conditions.

CASE HISTORY 1

Product: Macleans toothpaste

Firm: Beechams

The market

Several distinctive features characterise the toothpaste market. First, it has been dominated by a few firms over a long period of time. Three manufacturers (Beechams, Colgate and Elida Gibbs) had 80 per cent of the total sales in 1955; by 1960 they were responsible for 78 per cent of an enlarged market, and by 1972 their share had reached 88 per cent. With the entry in 1975 of a new competitor for the first time since 1941 (Procter & Gamble with Crest) four firms were in 1978 responsible for 88 per cent of the market. Of the remaining 12 per cent, distributors' own brands (DOBs) (particularly Boots and the Co-operative societies) accounted for 9-10 per cent, and firms selling specialised products such as Sensodyne (Stafford Miller) for the remaining 2-3 per cent share of the market.

Although these market shares give the impression of a stable and static market, this is misleading. The entry and exit of many brands occurred throughout the period. This has resulted in significant variations in the shares of surviving brands and companies both from year to year, and over the period as a whole. (See Chart, Long Term Share Trend 1941-78 overleaf for full details). For example, the share of the market held by Colgate, the brand leader in 1978, has varied from 7.6 per cent in 1941 to 30.4 per cent in 1963, to 42.5 per cent in 1970, and to 31.4 per cent in 1978. Beechams, which in 1941 was the brand leader with Macleans toothpaste with 24.1 per

LONG TERM SHARE TREND

	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
MACLEANS REG/ FRESHMINT	24.1	17.3	19.3	19.5	22.3	22.3	22.9	23.4	23.1	23.7	26.5	23.0	21.6	20.5	19.7	17.1	16.7	19.3	19.6	17.4	19.4	19.3	17.6	19.0	20.0	20.6	19.7	17.9	17.4	17.2	16.3	14.0	13.0	11.5	12.0	10.8	11.8	11.2
SPEARMINT MWF																											1.2	4.6	4.3	4.3	6.5	6.1	6.5	6.5	7.4	7.7	7.5	7.0
TOTAL MACLEANS	24.1	17.3	19.3	19.5	22.3	22.3	22.9	23.4	23.1	23.7	26.5	23.0	21.6	20.5	19.7	17.1	16.7	19.3	19.6	17.4	19.4	19.3	17.6	19.0	20.0	20.6	20.9	22.5	21.7	21.5	22.8	20.1	19.5	18.0	19.4	18.5	19.3	18.2
AQUAFRESH																																	1.5	5.2	7.6	6.4	7.5	7.1
TOTAL BEECHAMS	24.1	17.3	19.3	19.5	22.3	22.3	22.9	23.4	23.1	23.7	26.5	23.0	21.6	20.5	19.7	17.1	16.7	19.3	19.6	17.4	19.4	19.3	17.6	19.0	20.0	20.6	20.9	22.5	21.7	21.5	22.8	20.1	21.0	23.2	27.0	24.9	26.8	25.3
COLGATE (CDC)	7.6	8.3	9.4	9.9	9.3	8.5	8.9	10.4	10.5	11.9	13.4	17.6	20.5	23.0	26.2	25.6	27.3	27.0	30.5	26.6	25.7	25.7	21.8	24.5	26.5	27.6	29.0	27.2	26.1	26.0	25.3	25.0	21.9	23.1	21.8	20.8	22.8	23.8
ULTRABRITE																											1.5	8.8	11.8	13.6	12.8	11.8	10.0	8.1	7.2	5.5	6.6	7.6
COLGATE FLUOR																						0.6	8.6	7.3	5.6	4.9	4.0	3.0				2.2	2.5	2.0	1.5			
CHERISH																																			1.9	4.7	2.0	
TOTAL COLGATE	7.6	8.3	9.4	9.9	9.3	8.5	8.9	10.4	10.5	11.9	13.4	17.6	20.5	23.0	26.2	25.6	27.3	27.0	30.5	26.6	25.7	26.3	30.4	31.8	32.1	32.5	34.5	39.0	37.9	42.5	40.6	39.0	34.4	33.2	32.3	30.4	31.4	31.4
GIBBS SR	11.2	12.1	11.8	9.7	8.1	13.7	16.9	19.2	19.6	20.2	20.0	18.4	16.6	20.6	22.7	21.4	22.2	23.8	22.5	18.3	18.7	16.4	14.0	15.7	15.8	17.4	17.2	15.0	14.8	12.9	12.0	10.9	9.9	10.0	9.4	9.5	9.5	9.9
SIGNAL (SIGNAL 2)																			4.5	15.1	15.4	13.8	10.6	11.1	12.2	11.7	12.1	10.2	11.2	11.4	10.8	8.9	8.5	9.4	9.6	8.9	8.2	9.2
CLOSE UP																															0.4	9.4	12.8	10.9	7.3	6.2	3.9	2.6
GIBBS FLUORIDE																						5.7	11.9	8.0	6.1	4.9	3.6	2.6										
TOTAL GIBBS	11.2	12.1	11.8	9.7	8.1	13.7	16.9	19.2	19.6	20.2	20.0	18.4	16.6	20.6	22.7	21.4	22.2	23.8	27.0	33.9	34.1	35.9	36.5	34.8	32.1	33.0	32.5	27.8	26.4	23.8	23.2	29.1	31.4	30.3	26.3	24.6	21.6	21.7
GLEEM																12.1	12.8	9.9	7.9	6.0	5.4	4.1	3.2	2.5	2.2													
CREST																																	0.6	0.7	3.8	9.9	9.8	10.1
OTHER	57.1	61.8	59.5	60.9	60.3	55.5	51.3	47.0	46.8	44.2	40.1	40.1	41.3	35.9	31.4	23.8	21.0	20.0	15.0	16.1	15.4	14.4	12.3	11.9	11.6	12.9	12.1	10.7	14.0	12.2	13.4	11.8	12.6	13.3	10.6	10.2	10.4	11.5
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

cent share of the market, had a market share of 17.3 per cent in 1963, and in 1978 its market share had reached 25.3 per cent with Macleans and Aquafresh. In 1978 with the third largest share of the toothpaste market Elida Gibbs share has ranged from 11.2 per cent in 1941 to brand leader in 1963 with 36.6 per cent market share, and to 21.7 per cent share of the market in 1978.

Moreover, the share of the market held by particular brands during this period has varied widely. The sales of Close-Up (Elida-Gibbs), Si-Ko (Danning), and Kolynos (ICC) have all declined dramatically. Three firms - Procter & Gamble, Elida Gibbs and Colgate - introduced fluoride toothpaste in the 1960's but all were unsuccessful. Colgate introduced a new brand, Cherish, in 1975 but withdrew it from the market in 1977.

Secondly, this market has been continuously associated with a high level of advertising expenditure. Although expenditure still remains high (for instance, in 1977 advertising expenditure amounted to £4 mln on a turnover of £37½ mln and each manufacturer spent approximately £1 mln), between 1973-77 the proportion of advertising revenue to sales declined from more than 18 to 12 per cent.

The relative decline during this period has been caused by several factors: first, price controls which squeezed margins; secondly, the increasing emphasis on price per se which led to promotional expenditure to be directed to a larger extent than in the past to trade deals and Temporary Price Reductions (TPRs). (TPRs take two forms; price-marked packs where both manufacturer and retailers contribute to the discount; and 'flash' offers - 7p off - where the manufacturer offers

a discount to shoppers from the recommended resale price.) These two types of promotion constitute the major form of competition between toothpaste manufacturers. Since 1975 TPRs have declined relatively in importance to trade deals which have escalated and become the chief means by which manufacturers gain participation in retailers' promotions, additional shelf space and special displays. To some extent the relative decline of TPRs can be attributed to pressure from retailers for even lower prices, and the uncertainties surrounding the legislation introduced in 1979 on Bargain Offer Claims. Together with other promotions such as competitions, coupons, banded offers and money-back offers, some 7-10 per cent of toothpaste net sales revenue in 1978 was estimated to be devoted to promotions. In the economic climate of the 1970's and the changed structure of the retail trade, tocthpaste manufacturers believe that expenditure on promotions has been more effective in achieving sales than a similar expenditure on advertising.

This change in the kind of competitive activity prevalent in the toothpaste market is the consequence of increased retail competition and the growing share of the market held by large-scale retailers.

There has been a permanent shift in sales of toothpaste from their traditional outlet, the independent chemist, to the supermarket. The increase in the share of multiples relative to independent chemist shops was already evident in the 1960's but this development accelerated during the 1970's. The 13 largest customers of each of the four major manufacturers are responsible for 50 per cent of toothpaste sales. Boots, in 1979, accounted for 18-20 per cent and Co-Operative Societies for another 8 per cent. Tesco and Sainsbury

together are responsible for 15 per cent of toothpaste sales, and their share of the market is increasing.

Table 1

Share of Toothpaste Market of Different Types of Retailers in 1979.

	%
Multiple grocers	40
Co-Operative Societies	8
Voluntary Groups	4
Independent Grocers	4
Boots	18
Other chemists (multiple & independent)	5
Discount drugstores	9
Woolworth	5
Other outlets	6

Source: Trade estimates

This competitive siuation has led to a decline in margins, and lower manufacturer and retailer selling prices. The traditional retail margin on toothpaste was 33 and a third per cent, in addition to a wholesaler's margin of 10-15 per cent. Because of the change in the type of retail outlets selling toothpaste, sales through wholesalers have contintually declined. Moreover, the increased promotional activity by manufacturers, wholesalers and large multiple retailers has reduced gross margins for small retailers to some 20-28 per cent during promotions - and the number of promotions has increased in recent years. Retail gross margins on all branded toothpaste, including brands with a small market share, varies between 7 to 28 per cent. Not surprisingly, the gross margins of

smaller retailers who carry a wider range of toothpastes are at the upper end of the range, while multiples with far higher turnovers, and selling a more limited range of brands and sizes take lower margins of between 7 and 12 per cent.

Since 1973 manufacturers have reduced their selling prices in real terms by 7 per cent; at the same time retailers have accepted lower margins through the various special promotions designed to attract the consumer's attention which has reduced retail prices still further.

Thirdly, compared with some other countries the demand for toothpaste is relatively low. Between 1948 and 1961 the total annual production of toothpaste more than doubled, but despite this expansion consumption was estimated to be only half the amount bought per head in the U.S.A. and sufficient to provide only one-quarter of the amount the British public might be expected to require for regular use throughout the year. More recent international studies show that the amount of toothpaste purchased per family is still lower in the U.K. than in the U.S.A. or West Germany, viz 36 standard packs - U.S.A., 26 standard packs - West Germany, 19 standard packs - U.K.

Fourthly, the toothpaste market continues to expand albeit at a slow rate, some 1 - 3 per cent per annum. The main reasons for continuing growth are: (a) more people are retaining their own teeth (about 29 per cent of the population of England and Wales had no natural teeth in 1978 compared with 37 per cent in 1968, Office of Population Censuses & Surveys) (b) people brush their teeth slightly more frequently; and (c) people are trading up to a larger

size pack which leads them to use more toothpaste.

Fifthly, the intense controversy and public debate in the early 1970s concerning the addition of fluoride to drinking water to prevent tooth decay stimulated interest in the inclusion of fluoride in toothpaste to fulfil the same purpose. The subsequent acceptance of fluoride toothpaste by consumers was very rapid. In 1971 some 15 per cent of toothpaste contained fluoride; by 1978 it was almost universally included in toothpaste. This development had two major effects on the toothpaste market: (a) it stimulated the entry of a new competitor. In 1975 Procter & Gamble launched its Fluoride toothpaste, Crest, and this is now the fourth largest brand in the U.K. (b) it changed the theme of manufacturers' advertising from emphasis on the function of toothpaste to keep teeth white and clean and freshen breath, to the therapeutic advertising theme of helping to prevent tooth decay, particularly among children

There are other distinctive features of the toothpaste market, viz; although the total demand for toothpaste is relatively inelastic, the demand for individual brands is very elastic. Furthermore, the major companies spend large sums of money on research and development amounting to an average for U.K. manufacturing industry of 2½ per cent cent of sales, compared with an average for U.K. manufacturing industry of 1½ per cent. In addition, the Price Commission Report on Toothpaste (HC 125, 1978 p 47) suggested that manufacturing costs per ton were considerably smaller for the major brands compared with the minor brands, pointing to noticeable economies of scale.

Finally, specialised toothpastes which appeal to particular segments of

consumers have been introduced and established successfully and profitably alongside the brands of the four major manufacturers. The market share of Sensodyne, for instance, which caters for a semi-clinical condition of sensitive teeth is increasing; it is widely recommended by the dental profession. Other specialist toothpastes cater for children and smokers.

With regard to DOBs, their share of the market appears to have stabilised around 10 per cent with one multiple retailer, Boots, responsible for 6 per cent of the toothpaste market. Two factors would seem to account for the relatively small market share held by DOBs compared with some other product fields: (1) the relative decline in the price of manufacturer branded toothpaste has increased its value to consumers and inhibited the entry of additional DOBs; (2) the constant and aggressive advertising and sales promotion schemes of the major manufacturers provide consumers with a series of attractive offers and price reductions at the point of sale.

The product

Macleans toothpaste was introduced in 1928. Before that, the firm supplied toothpaste to chemists with the name of the chemist printed on the tube and carton. Although there was no fixed retail price, Macleans toothpaste sold at 6d for the small size (originally designed for sale at Woolworth's) and 1s for the larger size. These prices were similar to those of other proprietary brands but yielded retail margins between 33 and 50 per cent which were higher than was general. Small scale point-of-sale advertising accompanied the introduction. The first advertising campaign started in 1930 with

posters and display cards on the London Underground.

When in 1938 Macleans was acquired by the Beecham Group, retail prices were reduced: the large tube was 10½d and the extra large 1s 6d. The effect was to narrow trade margins to between 24 and 27 per cent but retailers could increase their earnings by sharing in the larger volume of sales that had followed advertising of the national brand. Thus a virtuous circle had been created; growing out-put encouraged the company to invest in production methods that reduced costs; the higher rate of sales stimulated by advertising enabled retail margins to be reduced; and lower prices in turn stimulated sales. In the immediate post war period sales of Macleans toothpaste doubled whilst advertising expenditure trebled; but after that increased competition including the establishment of new brands caused advertising expenditure to rise more steeply than sales.

Table 2

Macleans Toothpaste - Index of Sales and Advertising - 1931-79.

Year	Index of Sales	Index of Advertising
1931	100	100
1938	600	450
1946	1150	300
1952	1850	1150
1959	2800	2350
1961	3350	2650
1965	3852	4213
1970	3785	2941
1973	5259	6068
1975	7068	3392
1978	11825	9699

The competition

Between the 1930's and 1950's Macleans was the brand leader in a market dominated by three firms (see table 1). In 1954 Colgate became

the brand leader, a position it has since maintained, viz:

Table 3

Toothpaste Manufacturers: Share of Market 1954-78

Firms	Year %		
	1954	1967	1978
Beechams	20.5	20.9	25.7
Colgate	23.5	34.5	31.4
Gibbs	20.6	32.5	21.7
Procter & Gamble	-	-	10.0
Others	35.9	12.1	11.5

Source: trade estimates

The above table shows that Beechams had a market share of 20 per cent in 1954, and has since hovered around 20-25 per cent. This share has been maintained by the introduction of variants of the main brand: a new brand (Aquafresh); advertising, and a continuous programme of promotions which have pre-empted a proportion of the expenditure formerly spent on advertising.

Product development

In 1967 Beechams introduced a second flavour of Macleans toothpaste - spearmint - to their original mild mint flavour to appeal to the section of the market which preferred toothpastes with a mild flavour. These two variants of the main brand helped to stabilise Beechams share of the market around 20 per cent, but were unable to expand it. At the beginning of the 1970's the firm concluded from its research

findings that further expansion of the Macleans brand would only be achieved by high, and probably, unprofitable expenditure.

As a result the decision was taken to introduce a second brand as a more economic method of increasing the firm's share of the toothpaste market. In 1973 the development work which had been carried out on a blue and white striped gel led to the launch of Aquafresh, designed to appeal to mouth freshness. The introduction of this second brand raised the firm's total share of the market to 25 per cent by 1978 despite the heavy promotional expenditure which accompanied the entry of Procter & Gamble's Crest fluoride toothpaste in 1975.

Table 4

Beecham's Share of Toothpaste Market by Brand (%).

	1963	1967	1973	1976	1978
Macleans Fresh Mint	17.6	19.7	13.0	10.8	11.2
Macleans Spearmint	-	1.2	6.5	7.7	7.0
Aquafresh	-	-	1.5	6.4	7.1
Total	17.6	20.9	21.0	24.9	25.3

Source: trade estimates

Although the company has undertaken trade research to discover how the sales of a new brand are built up, no consistent pattern has become apparent. On the whole it appears that some sales are drawn from all the existing brands, particularly the weakest. Experience has shown that the introduction of a third brand by a manufacturer has not proved a successful method of expanding market share, e.g. Colgate's Fluor introduced in 1962 achieved 8.6 per cent of the market

the following year, but thereafter its share declined drastically and it was withdrawn in 1975; this is probably due to the difficulty of differentiating brands sufficiently in the mass market, and the high cost of promoting a brand adequately in a competitive market.

In 1975 both the variants of Macleans toothpaste and Aquafresh were re-introduced on the market with the inclusion of fluoride in response to the entry of Procter & Gamble's Crest. Although Aquafresh had contained fluoride from the outset, this feature of the brand had not been stressed, because there was little consumer interest in fluoride at the time of its introduction.

Besides meeting the competition from Crest by introducing a fluoride toothpaste, Beechams competed against this newcomer in four ways; by reducing the price; by a consumer promotion in 1976 i.e. a twin-pack offer which by providing a 40 per cent discount is an effective, if expensive promotion; by increased advertising and by increased sales effort from sales force who were provided with additional incentives.

Advertising

Two significant changes have taken place over the past decade in advertising policy. First, the proportion of advertising expenditure has declined in relation to expenditure on promotions. Whereas the ratio of advertising to promotions was formerly 60:40, it is more often now in the ratio of 40:60 because of the growing emphasis on price competition combined with the need to attract the attention of the shopper at the point of sale, and provide her with an immediate reason for purchasing a particular brand. Despite this relative

decline in advertising expenditure the chief medium for advertising Beecham's toothpastes is still on television, which means that less advertising is undertaken than formerly. (This decline in television advertising has been accentuated still further by the cost of advertising which has risen faster than the rate of inflation).

Secondly, during the 1970's along with most other toothpaste firms, the advertising theme of Beechams toothpastes was changed from the cosmetic to the therapeutic. Whereas the emphasis in the advertising of Macleans toothpaste had in the 1950's been on the benefit of cleaning teeth with toothpaste, leading to healthy teeth and white teeth, and in the 1960's the stress was almost entirely on whiteness; with the inclusion of fluoride in Macleans toothpaste and Aquafresh the emphasis changed to the value of toothpaste in preventing tooth decay. In 1980, however, since the value of fluoride is generally accepted and included in all toothpastes, Aquafresh is once more being promoted on a freshness claim, while Macleans toothpaste has been re-introduced with an improved fluoride (which has been patented) that gives more protection against decay and helps to remove plaque which is of concern to consumers.

Promotions

As has been seen, Beechams spend relatively more on promotions than on advertising than in the past. This is due to the changed structure and competitive nature of the retail trade; it is also due to Macleans' position in the toothpaste market as the second brand. Under these two conditions, the firm believes that a given expenditure on a promotion can be more effective than a similar expenditure on advertising.

On average consumers buy toothpaste twice a month. Shoppers, therefore, have 26 opportunities annually to switch from one brand to another. Since Macleans has a smaller share of the market than the brand leader, Colgate, it has by definition a smaller number of 'hard lloyal' customers, and this fact influences the number and type of promotions it employs. Macleans, like Colgate, places heavy reliance on trade deals with retailers in order to ensure that it is price competitive, and gains participation in retailers' own promotions. In addition, the firm promotes more frequently and more intensively than Colgate on the pack to provide shoppers with an additional incentive to purchase its brand in preference to those of its rivals, and to sustain the loyalty of existing customers.

Many of these on-pack offers are designed to encourage the shoppers to buy more than one pack of Macleans toothpaste, e.g. two packs for the price of one; '7p'off' this pack, and then a coupon worth 7p off the next pack purchased; send in tops of 3 packs and receive 50p in cash. Because these particular promotions are expensive, although effective in increasing sales, they are interspersed with lighter and less costly promotions, such as the offer of a 'free' magic painting book. Such an offer may nevertheless be sufficient to achieve a display in the supermarket and thus help to attract attention to the product.

These promotions are an integral part of the firm's promotional policy which is based on negotiating a trade deal with retailers on price and/or Temporary Price Reductions (TPRs), and then supporting the deal by advertising and promotions so that it may make the maximum effect in retail outlets. Three promotions a year are run on Macleans tooth-

paste, and each of these is laternated with a promotion on Aquafresh; these six promotions annually enable the sales force to promote intensively one or other of the toothpaste brands throughout the year. However, the firm finds it less easy than in the past to determine the timing of a promotion, because it is increasingly required to fit in with the promotional calendar of retailers. A recent development has been the pressure exerted on the firm for a price-marked pack to be made available for one retailer only.

CASE HISTORY 2

The product: Jif non-scratch scourer

The firm: Lever Bros.

The market:

Non-scratch scourers are part of the household cleaning market which includes floor cleaners, powder scourers, bleaches, liquid scourers and washing-up liquids.[1] There is considerable overlap in the use of these products by housewives who often substitute one type of cleaner for another because they do not regard them as serving a specific purpose. Thus this market is typified by low consumer discrimination and consumer interest. The market is also characterised by an arbitrary shelving plan in supermarkets because it consists for the most part of many disparate products with small turnovers.

Traditionally housewives have used two kinds of household cleaners to clean many hard surfaces in the kitchen and bathroom, i.e. powder scourers and bleach. Scouring powders, such as Vim and Ajax are very effective in cleaning surfaces, removing stains and burnt-on food. However, since they clean by grinding the dirt off surfaces, they are unsuitable for 'soft' surfaces such as laminates and stainless steel because they scratch and damage the surface. Similarly, while bleach is particularly effective for cleaning porcelain and stoneware sinks, and wooden draining boards, it is considered unsuitable for most modern coloured surfaces such as plastic baths.

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1. Which?, March 1977 pp 187-9 listed 23 cleaners (including washing-up liquid as one category) plus five soap-filled pads in its report on Getting Rid of Dirty Marks.

Since the 1950's a growing number of houses have been equipped with modern kitchens and bathrooms. Whereas in 1966, for instance, only 15 per cent of homes had stainless steel sinks, by 1974 they had been installed in 50 per cent of homes. By contrast, traditional porcelain sinks had declined to 9 per cent of homes.

Table 1

Kitchen and Bathroom Installations.

(as percentage of total homes)

	Year			Year - estimates	
	1973	1976	1979	1981	1983
Fitted kitchens	22	28	34	34	42
Stainless steel sinks	50	64	71	73	75
Plastic baths	11	14	17	19	21
Showers - separate units.	7	8	10	11	12
- plumbed to bath	13	14	16	17	18
Bathroom suites	89	90	91	91	92
Lavatories (per household)	1.2	1.2	1.4	1.4	1.4

Source LBL Survey.

Because of their harsh action housewives had gradually stopped using scouring powders on stainless steel sinks and baths. Thus the changing requirements of consumers provided an opporunity for the introduction of new types of scourers which would be just as effective in removing dirt and stains as their predecessors but would at the same time minimise the damage to the changed types of surfaces.

Initially, technical problems were encountered by firms who tried to reconcile these aims by incorporating a scourer in liquid detergent. The cleaning effectiveness of scouring powders is achieved by the inclusion of hard minerals such as quartz and felspar. When lower levels of abrasives than in powder scourers were included in liquid scourers they scratched less, but also cleaned less effectively. It proved difficult to ensure a stable suspension of abrasive in liquid; the abrasive tended to separate out in time and give variable performance. Difficulty was further experienced in avoiding scratches on soft surfaces if liquid scourers included the traditional hard minerals.

The product

Jif - a non-scratch cream scourer - was launched in 1974. It had been preceded by two earlier versions which had then been withdrawn. The first version which was test marketed in 1961 proved to be ahead of consumer demand; the second version was introduced specifically for bathroom use in 1967, but this market was not large enough to justify economic production.

The formulation of Jif consists of a slightly softer mineral - Calcite - than those used in powder scourers, combined with a blend of cleaning agents. It is a stable, creamy product based on Cif, which had been marketed successfully in France by the French company of Unilever since 1968, and which by 1973 was being marketed in more than a dozen countries.

In 1972, Lever Bros. decided to investigate whether Cif, which

appeared to be technically superior to products then available on the British market would meet the requirements of British housewives.

Consumer research indicated that only slight modifications were required to the French product, e.g. some fluorescer was included to enhance the colour of the U.K. formulation. In addition, the British product differed slightly from Cif because Lever Bros. did not have access to the mineral used in the French product.

Furthermore, consumer research revealed a difference in attitudes by French and British housewives towards cream scourers. Whereas the U.K. household cleaning market had for 70 years been dominated by the powder scourers so that British housewives had little experience of liquid products, French housewives were very familiar with liquid cleaners for general cleaning purposes, and recognised Cif as being stronger and more efficient than ordinary liquid household cleaners. British housewives who regarded powder scourers as efficient and economic and which, if required, could be diluted, were more sceptical about the effectiveness of a cream scourer in a squeeze bottle. As a consequence, they believed, incorrectly, that it was a liquid version of a powder scourer, and therefore 'mild' and extravagant. This prejudice of potential buyers was to some extent mitigated by the evident value of Jif's non-scratch properties on modern surfaces. (Conversely, the product is seen as 'irrelevant' by housewives who either do not own any new surfaces, or if these surfaces are already scratched.) Fortunately, consumer research also indicated that this sceptical attitude towards a cream scourer evaporated once the housewives used it; in trial tests a high percentage of respondents preferred it to their usual product. In

further consumer tests the product gained a high level of acceptance for its performance of the traditional powder scourer cleaning tasks, i.e. kitchen sink, cooker, bath, wash basin, and work surfaces. The main reasons housewives gave for liking Jif were: it did not damage surfaces; it gave a shine to surfaces; and it was suitable for a wide variety of household cleaning tasks. (These comments were later incorporated into theme advertising). The inclusion of ammonia in Jif also appeared to reassure traditional consumers of its cleaning/ purifying qualities.

Subsequently, in 1973 Jif was entered into a mini-van[1] test market, which gave the encouraging estimate that some 4-6,000 tons per annum of the product could be sold in the initial years.

As a result of these tests and research, Lever Bros. decided at the end of 1973 to manufacture and launch the product in the U.K.

The competitors

Liquid Gumption (the brand name had been well-known for several years as a scourer paste product) had been established in this market since 1969; sales had been growing steadily and had reached more than 2,000 tons per annum by 1973. There were also one or two smaller brands on the market. In 1973 it also became apparent that Colgate, Lever's main competitor in the scourer market, were about to launch a competitive and similar product that had already been introduced on the Continent. At this time, Colgate announced to the trade their intention to sell Ajax cream in the U.K. (imported, as it happened, from Belgium) and in order to enter the market before Jif seemed

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1 See Case History on Batchelors Instant Custard for explanation of the mini-van testmarket, p

willing to dispense with test marketing.

There seemed an immense risk that Colgates were about to pre-empt the launch of Jif unles Levers moved quickly. However, it was still considered necessary to test the reaction of consumers in the market place to Jif. Moreover, supplies would not be available from the plant in this country until 1975.

It was therefore decided to minimise the cost of importing Jif (made to the British formulation) by test marketing in a very small area of the country - Border TV. This strategy had two purposes; first to establish the product in the market; secondly, to identify and protect the advertising theme in advance of that of their competitor which in some Continental countries was very similar. Thus in the summer of 1974 the product was test marketed in a larger and more significant area - Greater London - which contained many potential customers of Jif. At this time it was still necessary to import supplies from France which proved an expensive procedure.

The major decision then had to be taken whether to delay the national launch until the results of the two test marketing operations were available, and supplies from the British plant were obtainable. This would mean delaying the national launch until 1975 by which time Ajsx cream would have been in the market place for several months before the introduction of Jif. The alternative strategy would be to forestall the launch of Ajax cream by entering the market immediat-ely. This would mean a heavier financial loss in the short term because of the need to import supplies, but with the prospect of obtaining a larger share of a growing market in the long run.

The national launch of Jif took place in 1974 one month before that of Ajax cream. The reason for the urgency to be first in the market was the knowledge that it could be difficult to achieve widespread distribution of a product group like cream scourers owing to their low frequency of purchase (on average, twice a year). Super-markets might not be willing to stock more than one brand.

Growth of the market

Over the period 1974-79, this market has quadrupled; penetration (the number of households using the product) and consumption have both doubled. By 1979 sales of liquid scourers accounted for 37 per cent of all scourers sales in volume, and 54 per cent of the total scourer (powder and liquid) market. By early 1980, Jif was responsible for 40 per cent of the sterling turnover of the market.

Table 2

Non-scratch Cream Scourer Market.

1974-79

Year	Turnover £000	Frequency of purchase per annum.	Volume (Tonnes)	Penetration %	Consumption Index (Kilos)
1974	1750	1.9	4300	22	1.0
1975	3500	2.2	7700	32	1.25
1976	5150	2.2	10100	33	1.6
1977	6150	2.2	10700	33	1.7
1978	8600	2.5	13400	39	1.8
1979	11900	2.5	16400	43	2.0

Source: trade estimates.

Over this period Jif has been a major contributor to market growth chiefly as a result of above average increases in penetration. viz:

Table 3

Year	No. of homes in U.K.	Market Penetration	Jif Penetration.
1974	18.3 mln	4.03 mln	1.72 mln
1978	19.1 mln	7.55 mln	4.59 mln
Penetration increase %		3.52 mln 87	2.87 mln 167

Source: trade estimates.

Table 4 shows the growth of sales, penetration and consumption of Jif over the period 1974-78.

Table 4

Growth of Sales, Penetration and Consumption of Jif

Year	Turnover £000s	Growth %	Penetration %	Consumption Index
1974	1900		9.4	100
1975	3635	91	19.1	95
1976	4798	32	18.9	127
1977	5397	12.5	19.0	135
1978	7328	36.0	24.0	145

Source: trade estimates

The expansion in the size of the market has encouraged the entry of another competing product (Cleen-O-Pine) which includes a disinfectant, the relaunching of Liquid Gumption in 1975 as a cream, and the introduction of Distributors' Own Brands made by well-known chemical companies. However, the relatively small size of this market, combined with the technically complex nature of the product makes the entry of further competitors unlikely.

Table.5

Brand Shares of Cream Scourer Market

1974-79 (Volume - tonnes)

Brand	Year					
(%)	1974	1975	1976	1977	1978	1979
Jif	83	47	47	51	54	51
Ajax Cream	17	16	20	20	15	20
Liquid Gumption		31	29	20	22	20
Cleen-O-Pine				6	7	6
Others		6	4	3	2	3

Source: trade estimates

Sales Promotion

Sales promotion of Jif has comprised a combination of advertising, sampling, couponning, Temporary Price Reductions ('flash' offers and price marked packs), and promotional schemes (competitions, British Rail ticket offers) viz:

Between 1975-79 the average ratio of spending between sales promotion (sampling, couponning, TPRs, competitions, etc.) and advertising has been 50:50, although wide variations have occurred from year to year because corporate promotional policy leads to funds being switched from one company product to another according to the market situation. Basically the policy of Jif as the dominant brand (2.5:1) has been to invest in sampling, advertising and distribution - by means of TPRs, competitions and couponning - in order to obtain increased share in a still rapidly growing market. Each of these forms of promotion have been deployed to encourage consumers to use and purchase a new product category, in particular the firm's brand, and to encourage retailers to stock, display and promote it, viz:

Sampling is the promotional activity which distinguishes Jif most from its rivals. Unlike its two major competitors, Jif has placed great emphasis on sampling after Continental experience had shown that once consumers tried Jif, they liked it and wished to use it. Between 1974-79 8.2 mln samples were distributed to help increase both penetration and consumption. (Sampling has not been used by Ajax Cream; 1 mln samples of liquid (then Cream) Gumption have been distributed).

When the product was introduced the firm wished to provide a mini-bottle to enable housewives to try it out several times. However, the costs of such a bottle plus door-to-door distribution proved uneconomic. As an alternative and cheaper form of distribution, a mini-bottle was placed inside a large pack of Persil, but its effect was limited because at that time this pack accounted for less than 20 per cent of Persil sales. Eventually an envelope containing two sachets (one application for the bathroom, the other for the kitchen) was devised for doorstep distribution. This method of sampling took place in one area of the country after another. After the first wave of sampling the increase in sales confirmed that product experience was the most important factor in encouraging purchase.

Trial of the product, which a sample provides, evidently dispels much of the housewife's prejudice against cream scourers which is based on her long usage of powders. The price of cream scourers, for instance, has been approximately double the price of powders, but the actual differential is less because the cream scourers are very economical. Furthermore, actual experience helps to allay lingering doubts that a liquid product is not as versatile as powders and cannot cope with

tough jobs.

More recently, sample sachets of Jif have been included in such domestic equipment as cookers because a sample is most appropriate at the time when a housewife is most prone to swtich scourers, i.e. when she purchases new equipment or appliances. Similarly, a housewife can best appreciate the versatility and efficiency of a cream scourer if she can experiment with it around the house; hence the development work on a mini-bottle sample for distribution to households which may now be an economic proposition.

Since the cream scourer market is dependent for expansion on the speed with which housewives switch to new types of surfaces and wish to protect them, sampling and resampling are regarded as a long-term continuous process to increase penetration and consumption rather than a short-term method for launching a new product.

Advertising

Advertising, which has been employed in conjunction with sampling and other forms of promotion, has three major objectives: first, to make consumers aware of the non-scratch properties of Jif by using the analogy of the skater's blade scratching the ice to illustrate the damaging effects of powder scourers on new surfaces; secondly, to demonstrate the varied used of Jif, and thirdly, to mention the manufacturers of equipment who have tested Jif, and who recommend it as safe and effective for cleaning their products thus providing assurance to consumers that a cream scourer will not harm their new, and probably, expensive equipment. Advertising has been predominantly on television, as all these three objectives can best be conveyed by demonstration.

Distribution

A major factor which has contributed to Jif's share of the market has been its widespread distribution, viz:

Table 6

Distribution of Cream Scourers Among Multiple Stores and Co-Operative Societies

(70 per cent of total trade)

Brand	Year end 1979
Jif	88
Ajax Cream	69
Gumption Cream	68

Source: trade estimates

This high level of distribution of a new brand with relatively low trade/consumer awareness has been due to a combination of factors including early entry into this market, and the general distribution strength of Lever Bros. Alongside other Lever Bros. products, for instance, Jif has participated in joint promotions with specific 'key' grocery multiples. (For a competition offering a Ford Escort as the first prize, 3 proofs of purchase from one or a combination of 5 Lever Bros. products were required to enter the competition). In such a promotion, both the retailer, who is seeking to attract customers by a distinctive offer, and the manufacturer who wishes to obtain a prominent display in the retail store and participation in the retailer's advertising, contribute towards a reduction in price during the period of the promotion. Furthermore, in such a scheme, Jif contributes towards the cost of joint advertising with the retailer

which is funded from the additional sales that it is hoped will be generated by the increased display, and interest in its brand.

A further promotion which favourably affected the distribution of Jif was the joint promotion between Lever Bros. and British Rail in 1979-80. (In return for sending in 4 proofs of purchase from one or a combination of 8 Lever Bros. products, the customer received a voucher. When a railway ticket was purchased, this voucher could be exchanged for another ticket of the same value.)

This particular promotion aroused immense interest among both retailers and customers. It enabled Jif for the first time to achieve display on the shop floor, a space usually reserved for large volume lines, and the space associated by customers for products which are being sold at especially low prices. By virtue of this special positioning, retailers were prepared to match the price reductions offered by Jif during the promotion by parallel price reductions. Participation in this promotion has not only increased sales; just as important at a time when pressure on shelf space leads retailers continually to consider dropping existing lines or contracting the space allocated to them; this promotion helped to change the status of Jif vis à vis retailers. It has become acknowledged as an established and expanding brand, and hence one that warrants adequate shelf space. As a side effect, the promotion has also affected favourably the attitude of the firm's own sales force towards the product and thereby the selling attention they are prepared to devote to it.

Pricing policy

Because of the prevailing conditions in retailing during the 1970's —

and increased consumer price consciousness, intense competition between retailers and intense competition between manufacturers for shelf space - Jif has relied on intermittent price reductions such as 'flash' offers[1], price marked packs, and couponning at specific times of the year, e.g. spring cleaning to encourage trial of the product and to ensure that manufacturers price reductions reach consumers.

After bargain pack offers and trade bonuses have been taker into account, the average price of Jif has been slightly higher than that of Ajax Cream, and pricing models show that Jif can sustain a price differential up to 1½-2p over its closest rival. The decline in 1978 (see Table 5) in the market share of Ajax Cream is probably attributable to the relative increase in its price compared with that of Jif over this period. On the other hand, although a price differential of up to 10p has frequently occurred in favour of Gumption Cream, this has had little effect on sales of Jif. (In the non-scratch cream scourer market price increases have taken place less slowly than the rise in the rate of inflation, i.e. whereas the Retail Price Index (Food) was 193 in 1970, the cream scourer price index in 1978 was 150.)

At the beginning of 1980, in order to influence their relative share of this growing market, Ajax Cream began a dramatic price reduction campaign by lowering their price some 8-10p below that of Jif. Since Jif was not prepared to lose part of their share of this market, they responded straight away and reduced their price by a similar amount by overprinting their price marked packs.

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1 With 'flash' offers (7p off) the retailer can sell at not more than the recommended price less the money 'off' from the manufacturer. With price marked packs a significant contribution to the price reduction is required from the retailer, the manufacturer's discount from list prices being perhaps only half the discount from recommended prices.

It is likely that this reduced price level may lead to increased penetration of cream scourers, although in such a complex market where liquid scourers not only compete with each other, but with powder scourers and many other household cleaners, the degree of elasticity of demand is difficult to predict. There would, nevertheless, still appear to be ample scope for expansion of this market if Continental experience can be taken as a guide, e.g. by 1978 in Holland 72 per cent of households were using non-scratch cream scourers compared with 43 per cent in the U.K. in 1979.

CASE HISTORY 3

The Service: Golden Rail

The industry: British Rail

The Service

Golden Rail (GR) began in 1971. Since then it has been adapted and extended in several respects, notably by the introduction of short-stay and self-catering holidays, and the introduction of additional resorts including the Channel Islands and Stratford-on-Avon. The number of holidays booked has grown from 27,000 in 1972, to 98,000 in 1974, to 141,000 by 1978 and 160,000 by 1979. (See Table 1)

Table 1

Golden Rail Bookings 1971-79.

Year	Total Holidays*	Breathers**	Self-Catering
1971	30,000	---	-
1972	27,000	-	-
1973	60,000	1,800	-
1974	98,000	5,000	-
1975	114,300	12,300	-
1976	94,300	12,000	-
1977	111,000	16,400	1,600
1978	141,000	19,800	5,600
1979	159,000	22,000	14,100

* More than 5 per cent of main holidays are now outside the peak season.
** Golden Rail has not so far offered Breather holidays to London; these are organised by Stardust, another sector of British Rail.

Source: British Rail

However, the basic charcteristics of the scheme have remained virtually unchanged; an inclusive holiday comprising accomodation with either half or full board available from a wide choice of hotels and resorts; 2nd class rail travel (or 1st class on payment of a small supplement); all transport from traveller's local station to holiday address and return and, where appropriate (across London, Manchester and Glasgow) by pre-booked taxi; seat reservations on Inter-City services - individually labelled whereever possible; service of GR couriers at main stations and at resorts/inland centres; a voucher giving a 50 per cent reduction on a rail day trip within a radius of 100 miles; and holiday concellation and curtailment insurance.

The objectives

A major objective of British Rail is to attract additional passengers at off-peak periods of the week and year in order to minimise the spare capacity which exists even during the summer season, apart from a few Saturdays. High fixed costs are generated by the need to meet the short-lived peak demand of commuters and businessmen; running extra trains and filling empty seats off-peak involves only marginal costs. Hence over the past decade BR has introduced a wide range of services designed to appeal to specific subsections of potential customers - shoppers, senior citizens, students, families, holiday-makers - in order to open up additional markets which would make a contribution to rail passenger receipts.

The introduction of GR as an inclusive holiday package in the U.K. is part of this general objective. The contribution of GR to rail

receipts rose from under 4 per cent in 1974 to 14 per cent in 1979. Other objectives of GR were:

b. To help counteract the decline in holiday travel by train which had fallen between the late 40's and late 60's from around 50 per cent to 11 per cent due to the rapid expansion of car ownership and foreign holidays, particularly package tours. A GR holiday would have the advantage of combining to some degree the convenience of car travel with that of a packaged holiday.

c. The introduction of GR was regarded as a suitable means of enabling BR to capture a sizeable proportion of the domestic packaged holiday market which at that time was practically non-existent. Although in 1970 packaged holidays only amounted to some 5-6 per cent of holidays in this country, and were dominated by coach operators, both coach and tour operators were beginning to promote this market energetically based mainly on coaches.

d. To attract a proportion of that segment of the market who do not take holidays away from home[1] but who might be persuaded to do so by the reassurance and convenience offered by an inclusive holiday.

Finally, but by no means least, it was anticipated that the advent of GR could help to regenerate interest in rail travel.

Organisation

In the first year of operation British Rail undertook the marketing and funding of GR. However, in order to benefit from the expertise

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1 in 1970 the British Travel Association had estimated that 20 mln people did not take holidays away from home.

of an experienced tour operator, administration and booking were contracted out, and these functions were incorporated into the tour Operator's own business. Under this arrangement, one and two week holidays were offered throughout the year.

Furthermore, in order to utilise the railway network to the fullest extent, the conventional tour operator procedure of block bookings at reduced rates in a limited number of hotels was not adopted; instead the knowledge of the Resort Officers of the resorts which were to be featured in the GR brochure was enlisted.[1] A policy was evolved by which these officers helped to recruit and screen a large number of hotels and guest houses where GR could place customers without any prior committment on either side. This arrangement helped minimise the financial commitment, since British Rail's role was confined to that of broker placing business it had created with a large number of loosely affiliated hotels. Furthermore, it enabled GR to offer its customers a large number of resorts, and a wide choice or prices and standards of hotels and guest houses. It was recognised that the major weakness of this policy could be the difficulty of ensuring room reservations, and could result in a slow booking procedure. Besides co-operating in the selection of hotels and guest houses, the resorts which participated in GR also agreed to publicise the scheme in their holiday guides.

At the end of the first year which had been beset by a Postal strike as well as the not unexpected difficulties associated with a new venture, 30,000 holidays had been sold. Several valuable lessons were drawn from GR's entry into packaged holidays:

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[1] Hotels and guest houses had to comply with the minimum standards of local authorities.

1. GR holidays, for the most part, had been purchased by summer holidaymakers. This market suffered from two major disadvantages for the future: (a) it had been static for several years and therefore offered little scope in the long run; (b) it could not contribute towards BR's objectives of attracting extra passengers during off-peak periods.

2. Despite an additional supplementary charge for Saturday travel during the peak holiday season, a high percentage of GR holidaymakers had travelled on that day, partly as the result of the reluctance of hotels to change their booking days.

3. GR had not attracted to any extent that segment of the market that does not take holidays away from home; it had become evident that it required a price below that which would make GR economically viable to attract them.

4. Despite initial teething troubles which included a shortage of hotel rooms, particularly in the summer months that had resulted in 'frustrated' sales, the potential did exist for packaged holidays by rail in this country, and GR had achieved a foothold in this market from which it could build a range of holidays that would meet satisfactorily its marketing objectives. (The apprehensive comments and verbal attacks by competitors which accompanied the launch and operation of GR were also regarded as confirmation that it had become an effective competitor in the domestic holiday market!)

After the outside tour operator had withdrawn from the administration and booking of GR, in 1972 BR took over these functions.

Since then, GR has been based on co-operation between three interests: BR, hotels, and resort tourist boards. The operation and administration of GR are, however, the sole responsbility of BR.

Short-Stay Holidays - Breathers.

Experience had shown that the original type of holiday offered by GR required to be broadened if large scale sales were to be generated, and if off-peak travel was to be encouraged. A pilot small-scale scheme confirmed that this would be achieved if, in addition to its main scheme, GR diversified into short stay holidays during off-peak periods which would appeal to people seeking a second holiday outside the traditional holiday period.

As a result, GR began to issue two brochures; the first offered one and two week holidays between April and October; the second brochure offered short out-of season holidays covering, with a small over-lap, the remainder of the year. 'Breathers', as these holidays were named, were for a minimum of three nights which could be extended, if required, up to 5 nights, and would include all the standard elements of the main holidays, apart from insurance. There were, however, several distinguishing features of Breathers: holidaymakers could travel on any day of the week[1] (excluding Sunday) compared with the Wednesday and Saturday travelling days stipulated in the main scheme; fewer resorts were available compared with the main scheme, but these included several inland holiday centres designed to appeal to those taking holidays outside the summer period.

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1. This feature distinguished it from its competitors.

Pricing Structure

Although the main programme of GR continued to offer a wide range of prices and selection of hotels, the pricing structure was simplified in two directions. First, Easter was abolished as a pricing period which reduced their number from four to three, i.e. the low season, the shoulder (mid-September to end of October, mid-May to end June), and summer. Secondly, whereas the original pricing structure had been based on zones this was replaced by a system of inclusive prices from 53 charging stations to groups of resorts (and subsequently reduced drastically still further).

GR becomes financially more advantageous to holidaymakers compared with a do-it-yourself holiday the longer the distance travelled and the more out-of-season the holiday. Hotels also contribute to this financial advantage compared with a 'do-it- yourself' holiday by reducing prices below those otherwise charged during the shoulder and winter periods. On the other hand, short-stay holidays offer the most financial benefit to British Rail because the rail element constitutes a higher precentage of total price than on longer holidays. Although this pricing policy means that holidaymakers who take high season holidays and short journeys benefit least financially, they nevertheless obtain the convenience of GR assuming responsibility for booking and travel arrangements, and they reduce the risk of choosing an unsatisfactory hotel/guest house.

Sales Promotion

In 1973 £1000,000 was expended on a sales and advertising campaign. A large part of this expenditure went on printing half a million bro-

chures.. Advertising was divided between: national newspapers and magazines, including the Radio Times, the Reader's Digest, and women's magazines, which incorporated coupons for interested readers to send off for the brochure; television which also encouraged viewers to telephone or write off for a brochure; and posters displayed at railway stations. The inquiries made through advertising media were monitored. Other promotions included the provision of 'resort leaflets' at cost to resort authorities for distribution with local hotel guides. In addition, participating tourist authorities and hotels contributed towards the costof publicity and promotions, especially out-of-season short holidays. Advertising for Breather holidays was limited to the press and posters.

As a result of the changes made to the original scheme, in 1973 GR holidays doubled to 60,000, of which 97 per cent were for the main holiday scheme, and 3 per cent were Breathers.[1] Although the 45+ age group predominated in both schemes, constituting more than 65 per cent of the total, their socio-economic composition differed significantly. Whereas Breathers attracted ABC1s,[2] the main scheme appealed principally to C1, C2, Ds. Similarly, the geographical background of the participants varied widely in the two schemes. Holidaymakers taking Breathers came mainly from London and the South-East; the main scheme appealed most to people living north of the River Trent who tend to take holidays on the East and South Coast. Furthermore, a higher proportion of those taking Breathers owned cars compared with people taking holidays in the main scheme. Many people who take a Breather holiday (apparently) welcome it as a change from driving.

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1 The number of Breather Holidays is detailed on Table 1.
2 Socio-economic groups as defined in the IPA Readership Survey

Further research into the operation of GR showed that two-thirds of the business had been taken away from other means of transport, principally coach and car, and that the proportion of repeat business was higher than that achieved by other inclusive tour operators. This was taken as a measure of customer satisfaction and 'loyalty'. In addition research into customer's attitudes showed that 95 per cent of respondents enjoyed their holiday. 'Convenience' was considered the most valuable attribute of GR in association with the provision of a personalised service. The elements in the scheme which contributed towards these attitudes were: the personal booking procedure; the comprehensive information provided in the travel wallet; reserved seats; the services of GR representatives in transit; provision of taxis to connect major railway stations, and to transport holidaymakers to and from the hotel to the railway station. Thus the impression of GR emerged from this research as a caring operator, offering quality holidays, which seemed to be confirmed by the high proportion of passengers who paid a small supplement in order to travel first class. Research also suggested that it was misleading to describe GR as a packaged holiday because its customers appreciated the absence of organised travel, and therefore another description would be more accurate and appropriate.

These market research findings, however, faced GR with a dilemma. Although the favourable attitudes of customers towards GR suggested that rapid expansion would be possible, it was feared that too rapid expansion might outstrip the available handling capacity and thereby destroy the very attitudes which had contributed to its successful development so far. Consequently, for 1974, the aim was to increase bookings by 25 per cent. Two new resorts were added to the scheme, and the 50

per cent reduced rail voucher was continued in view of its popularity.

Furthermore, it was recognised that successful expansion would depend more on the ability of GR to satisfy potential holidaymekers who sent in completed booking applications which could not be confirmed through the unavailability of hotel rooms, particularly in the summer season. The need to reduce such 'frustrated' sales led to organisational changes in two inter-related aspects of GR: (1) the selection of hotels and (2) the booking system. These changes have resulted in a more highly controlled operation in place of the former voluntary system.

1. Hotel Selection

Originally GR offered a wide selection of hotels in each holiday centre. This policy has been reversed, although the number of resorts has continued to expand. The radical contraction of the number of hotels per resort has had two effects: first, it has raised the general standard of hotels in the scheme because these must now confirm to the English Tourist Board's voluntary standards introduced in 1974, as well as to strict fire regulations. Since 1977, no hotels have been accepted without inspection. Secondly, with fewer hotels GR has a closer relationship with hoteliers, and has become a more important customer to them. A pre-reservation system has been introduced since 1974 in place of the former voluntary allocation of rooms by hotels which had not proved satisfactory. In the peak season in the more popular resorts a deposit reserves a high percentage of rooms on behalf of GR, and a penalty is incurred if they are not taken up. This system will be extended to all resorts

in the main programme from 1981. In the off-peak season GR reserves a certain number of rooms in each hotel according to anticipated demand. By concentrating their business in fewer hotels, GR is now responsible for a substantial proportion of a hotel's turnover, which can amount to 50 per cent.throughout the year. The growing importance of GR to a hotel out-of-season has been an important contributory factor in persuading hotels to allocate rooms to GR during the high season.

2. Booking System

Until 1975 bookings could only be made by post, and although telephone inquiries were dealt with this facility was not publicised. The installation of a computer to undertake pricing and billing speeded upthe booking procedure. More recently, the installation of a new computer has released sufficient staff time to undertake telephone bookings for Breather Holidays, low-season bookings for holidays in the main scheme, and bookings for high season holidays after mid-March, as part of an overall planned improvement in the booking system. (To some degree GR still operates an open-ended booking scheme by inquiring whether a hotel has other rooms available once its allocation has been taken).

The reduction in the number of hotels per resort, combined with the introduction of a computerised booking scheme helped to lower the 'frustrated' rate of sales from 35 per cent in 1974 to 13 per cent in 1978. These changed operating methods were doubtless one factor in contributing in 1977 to the reversal in the fall in sales (contrary to the national trend) which resulted from the economic recession of 1976.

Sales Outlets

Bookings for GR holidays are made through three channels; direct by post or telephone to York, the headquarters of GR; through 300 selected railway stations; and through the 1700 appointed agents who sell British Rail tickets. Hitherto, sales strategy has been biaised towards direct sales, although the facility of booking through travel agents is mentioned in advertisements. However, bookings through travel agents have risen steadily, averaging around 40 per cent for holidays in the main scheme, and more emphasis will be given to this sales outlet in future.

Developments in sales promotion

The relatively high proportion of repeat bookings which was a feature of GR holidaymakers in its early days has persisted during the 1970s as a measure of customer satisfaction. The despatch of the annual brochure automatically to former customers comprises, therefore, an important component of sales promotion policy. In 1978, 26 per cent of GR holidays were sold to former customers via the mailing list. The value of customer satisfaction in generating additional business is also evident from research which shows that personal recommendation is more important than the media in generating awareness, and probably bookings. Research has shown that half of those who booked GR holidays in 1978 first heard of them by work-of-mouth, whereas half of those who did not book a holiday had been made initially aware of GR by the media. A coupon is therefore provided in the brochure to enable people to request GR to send a copy to their friends.

In view of the high proportion of GR bookings which emanate from the

Midlands and the North, television advertising has been discontinued in the London area and concentrated in those areas of the country where it has been found cost-effective; commercial radio continues to be widely used in the London area. The original division of total sales promotion expenditure in the ratio of 50 per cent on brochures, and 50 per cent on advertising has continued.

The Competition

Two factors have increased the competitiveness of the domestic holiday market for GR. First, the number of firms offering rail package tours has grown. Besides Saga (principally senior citizens), other firms such as Cosmos, Eden Vale, Galleon and Co-Operative Travel have entered this market. The National Bus Company and other coach operators have introduced package coach holidays. GR also faces direct competition from the many hotel groups, (e.g Grand Metropolitan) which organise short-stay holidays and which have negotiated inclusive tour fares with BR, and indirect competition from other sectors of BR such as Sealink and Stardust, which specialises in short holidays to London.

Secondly, the economic situation from 1974 onwards adversely affected the domestic holiday trade. Besides reducing the total number of those going on holiday, many holidaymakers have traded down in order to continue taking holidays. This has led them either to choose lower priced hotels, reduce the length of their annual holiday, or switch to self-catering holidays.

Demand for holidays is therefore very susceptible to price, and GR have responded to this situation in several different ways. In

particular, in 1980, pricing policy was made more flexible than formerly by the introduction of much smaller price changes between pricing periods by means of a 'mid season' between low and high season. There are now fewer abrupt price changes, for instance, on either side of the peak holiday period in order to encourage an expansion of business between mid-September and the end of October.

In the main scheme, too, additional reductions at many hotels were made available for holders of Senior Citizens Railcards during the very low season weeks, after the successful completion of a pilot scheme in 1978.

On Breather holidays, since 1979, the minimum period has been reduced from three nights to two to counter the effect of inflation and the policies of competitors..

Widening the Market

As a means of increasing turnover, the number of resorts included in GR has been continuously increased. Among the most recent additions have been the Channel Islands and Stratford-upon- Avon. Further, to widen its appeal to holidaymakers with children in 1977, GR introduced self-catering holidays in chalets, suites or caravans, in co-operation with leading holiday camp operators. Families naturally constitute the major part of the self-catering market which is the fastest growing sector of a static domestic holiday market. It comprises some 28 per cent of the total market, and 14 per cent of self-catering holidays are taken in holiday camps. By 1979 GR self-catering holiday bookings had risen to approximately 14,000, of whom approximately half were children. Because the average size of

the self-catering party is 4-5 persons, these holidays generate more revenue than either holidays in the main scheme with 2.38 passengers per booking, or Breathers with 2 people per booking.

CASE HISTORY 4

Product: 'Superfry'

Firm: Van den Berghs

Superfry was a gelled vegetable oil suitable for shallow and deep frying. Its distinguishing characteristics were its high performance for frying, and that it was a cooking oil with the advantages of cooking fat, in that it melted when heated, and reverted to a jelly-like solid state when cold. Furthermore, it was packed in a tub which acted as a storage container after the product had been used.

Between 1972-74 a comprehensive series of market research tests were carrid out into every aspect of the product, viz, pricing, packaging, advertising, and consumer attitudes towards the concept, the product, and towards existing cooking oils and fats. In 1974 it was first marketed in a town which, although not representative of a national launch, enabled the firm to test the operation of their production and distribution facilities in the market place. When this small-scale test had proved satisfactory, towards the end of 1974, the product was put into an area test market which duplicates in miniature the national marketing situation without incurring the expenditure and risks of a national launch. However, although sales were initially satisfactory, after 6-8 months they were failing to reach their predicted levels. After post-launch investigations to try and discover the causes for the lower-than-anticipated sales, and further tests of a modified product, the brand was finally withdrawn from the market in 1976.

The market

Superfry would have comprised part of the White Fats/Oil market, i.e. lard, compounds, such as White Cap and Cookeen, and cooking oil which are used primarily by housewives for shallow and deep frying and roasting, and also, to a lesser extent, for pastry and cakes. During the period when Superfry was being developed and tested, this market remained fairly static; sales volume declined by around 4 per cent: the relative share of the three products which constitute this market also remained relatively stable, the variations which did take place resulted from changes which occurred in the price of cooking oil, viz:

Table 1

White Fats/Oil Market

Product Share and Price 1972-76

	1972		1973		1974		1975		1976	
	%	Price (p/lb)	%	Price (p/lb)	%	Price (p/lb)	%	Price (p/lb)	%	Price (p/lb)
Lard	63	8.2	60	9.9	61	16.7	63	19.0	61	18.4
Compounds	15	13.9	15	14.3	15	22.3	16	23.1	16	23.5
Oil	22	18.2	25	18.2	24	26.7	21	24.8	23	30.8

Source: trade estimates

A feature of this market is the high share of Distributors' Own Brands (DOBs) of cooking oil which amounts to some 50 per cent. In the compounds market, there are three main brands, viz:

TABLE 2

Compounds Brand Share (1972-6)

	%
White Cap	39
Cookeen	33
Trex	14
DOBs	14

Source: trade estimates

The product

In 1972 Van den Berghs had developed three new cooking fats, each of which had certain advantages over existing products on the market. When each of these was tested by a representative sample of housewives, Superfry received the most favourable response. At the same time as these products were being tested by housewives, their cooking habits regarding grilling, frying and roasting were also ascertained, and found to be very similar, viz, the majority used oil and lard for deep frying, but lard, white fat, and occasionally oil for shallow frying; many use their own dripping or lard for roasting, and a few cook vegetables, omelettes, scrambled eggs, and onions in butter or margarine; not many added fats to grilled food, but when they did, it was frequently butter or margarine and occasionally oil or lard; although some women chose cooking fats on the basis of health, for many it was not a very important factor. It was also evident that while oil users may choose oil because of its health advantages, those who do not use oil seldom consider the health or purity advantages of a cooking fat.

Once Superfry emerged as the most favoured product tested, there were group discussions with the housewives to analyse the product in detail. A very large number of women intimated that for a variety of reasons they would like to buy Superfry, with the proviso that it was in the same price bracket as the cooking oil or fat they currently purchased. The main advantage of Superfry was considered to be that it did not spit or splash, nor did it burn. Another desirable feature of the product was its neutral flavour and in contrast to lard or oil few of the women noticed any smell; but they did notice that it left food crisp and dry, and it was not absorbed by food. A further asset was seen to be its versatility; because it combined many of the properties of lard, white fats and oil, Superfry could be used as a substitute for them. Other favourable characteristics were considered to be its convenience compared with lard because it melts quickly, and compared with cooking oil because it hardens and does not require to be poured back into a bottle; that packaging in a tub was preferable to paper wrapping and provided a means of storage; that the product gave good cooking results even when reused several times, and that food cooked with the product was easy to digest even by people with indigestion problems.

On the other hand, some of the features of the product were disliked by the group, principally its appearance and texture, and the quality of the tub. There was a general dislike of the product because it looked like'hardened oil', and it did not look fresh, clean or new. It was generally agreed that a matt finish would be preferred. The texture of the product was also criticised although this varied according to where it was stored. Despite some disagreement over its texture, the women all maintained that Superfry

should have a 'whipped soft texture' like soft margarine. The tubs were criticised because they broke easily and melted when hot fat was poured into them. It was suggested by the groups that the container should be brick-shaped instead of round so that (1) the housewife can 'judge an ounce'; (2) the tub would take up less room; and (3) the tub would be easier to store and stack.

The anticipated price of a pound of Superfry was estimated to be somewhere between the prevailing prices for lard and oil respectively.

Several suggestions were put forward for improving the product, viz: instructions should be given on the quantity required for different types of cooking; the colour should be a creamy off-white. The group members wanted reassurance that the product was suitable for baking as well as shallow and deep frying and (suggested that) the texture should be the consistency of solid margarine, that would be easy to store, would not spill, and would melt quickly. The product should revert to this consistency after use.

Three main conclusions emanated from these group discussions: first, that the chief merit of the product was that it combined the best qualities of lard and oil, and if it could be used for deep and shallow frying, roasting and pasrty making, it would offer the housewife the opportunity of buying only one product for all these purposes; secondly that many housewives who use lard for deep frying would prefer to use oil, but do not want to struggle pouring it back into a bottle. This product eliminated the problem, and finally, that many women who buy lard and cheaper cooking fats would be reluctant to spend money on fats, although they admitted that Super-

fry had advantages over lard.

In March 1972 while this representative sample of housewives was choosing between three cooking fats, and giving their detailed comments on them as above, another piece of research was being undertaken into the attitudes of housewives towards cooking fats (including butter and margarine) in general for frying, grilling and orasting in order to discover the relative strengths and weaknesses of these products. An analysis of the product categories, combined with the general attitudes of the respondents towards each product made it possible to build up a composite picture of the cooking fats market. For instance, all the respondents used more than one fat in their cooking. Only some housewives used cooking oil for health reasons. It proved, however, difficult to give a relative weight to the strengths and weaknesses of each product because while a housewife may be well aware of the deficiencies of a particular cooking fat, she continues to buy it because the positive features out weigh the negative, e.g. economy or versatility. As an example, lard is frequently criticised for its flavour or smell but is purchased by a large number of respondents.

Then in June 1972, to supplement the research into the attitudes of housewives towards the concept and their reactions to the rroduct, a qualitative study was undertaken to discover, if possible, how to describe and name the product. This involved group discussions with two groups of housewives restricted to the younger age group as these are more likely to be willing to try new products than older housewives.

The study concluded that the word or description 'jelly' was an in-

adequate and incorrect description of the product, because it suggests a wobbly but more solid consistency than Superfry, and is generally associated with greater transparency. The report therefore concluded that it was premature to try and find an acceptable description of the product until it could be made slightly more solid and far more transparent. The study furthermore suggested that while housewives appeared to appreciate and often welcome a product that can perform the function of both oils and fats, many housewives experience conceptual difficulties in changing their current habits of employing the former for frying and the latter for making pastry and cakes. As a result of this report, further product formulation work was undertaken, and concepts pursued that would make it easier for housewives to understand the specific assets of Superfry.

Testing the marketing mix

The aims of the next piece of research undertaken in May 1973 were three-fold:

First, to assess the relative acceptability of the various parts of the brand - the concept, the advertising, the product and the packaging - as used in the total package. Secondly, to identify strengths and weaknesses in these four areas; and finally to establish whether Superfry was (as) acceptable to the projected market, viz; purchasers of white fats and cooking oil, as their present products,

Because of the newness of the product concept and lack of consumer knowledge for such a product a short pilot study was undertaken in the north and south of the country half among those who use DOB oil,

and half among those using white fats before the recruitment of a full-scale sample, who were then asked to test the product at home, shown TV commercials, and asked to complete a questionnaire on their views of the product, and their reactions to the advertising.

Since it was only through the advertising copy that the idea behind the product could be communicated, it proved impossible to separate the housewives' assessment of the concept from that of the advertising. However, the research showed that these two elements generated a high initial interest in the product, a high propensity to purchase and a high level of expectations of the performance and quality of the product. Furthermore, the advertising had managed to communicate successfully, first, the nature of the product, i.e., that it had the qualities of cooking oil to a greater or lesser extent than those of cooking fat, but was equally suitable for the uses generally associated with both products, and secondly, had presented it in a manner which appealed to housewives who purchase Distributors Own Brands of white fat and cooking oil.

The research identified three minor, but nevertheless, important weaknesses in these areas:

1. Only 43 per cent of those who were shown the advertisements spontaneously recalled the brand name which suggested that it required more emphasis.
2. The initial connumication did not describe Superfry adequately enough since a majority of the sample thought that the product was something other than a 'type' of cooking oil, and many thought it was a margarine.

3. There was a definite tendency for housewives to identify convenience as the product's basic claim rather than its main asset of high quality performance in deep and shallow frying.

When the in-home trials had been completed, it was found that the product had achieved a satisfactory level of response measured against the 'Action' standards[1], with packaging identified as the only weakness. On the whole, the sample of housewives was satisfied with its experience of the product, and that it came up to the expectations created by advertising. However, after the product had been tried the propensity to purchase was disappointing.

Housewives could be divided into two groups - acceptors and rejectors. The acceptors were prepared to purchase after they had watched the TV commercials, and after they had tried the product. The rejectors, on the other hand, found that, although the product performed well in trial, it did not reach the expectations generated by the advertising. It appeared that, on balance, the rejectors think that Superfry is a good product but one which they cannot integrate into their traditional patterns of usage. Whether Superfry was accepted or rejected bore no relation to existing product usage (i.e. cooking oil or white fat) or to any other specific characteristic that could be identified in this research.

The packaging

As anticipated, the packaging did not reach the expectations of housewives. The company had been aware of the defects in the

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[1] Action standards are generally set before a test commences and then scores must reach those levels to be acceptable.

packaging before the test, and an investigation into tub design was therefore instituted.

The other major factor that emerged from the in-home trial was that larger sales (pro rata) would be achieved of the product in the north of the country than in the south. In Lancashire, for instance, housewives were more favourably disposed towards the product than in London after trial, although this had not been evident at the post-advertising stage of the research.

Following the results of testing the advertising, a modified and shortened version of the original advertisement was devised to overcome some of the weaknesses which had been revealed. This revised advertisement was pre-tested in June 1974 to establish whether it adequately explained the product, and whether it made viewers sufficiently interested in it.

The new version of the advertisement appeared to communicate satisfactorily the basic features of the product, and these were understood by housewives. Unfortunately, just as in the original advertisement, the main claim was still perceived as convenience rather than the high level of performance which could be achieved in deep and shallow frying. However, despite the continued tendency to judge the product for convenience primarily, its other attributes were also appreciated. In addition, the research showed that the advertisement generated a high level of interest in purchasing the product in the future, among both the purchasers of white fats, and the users of DOB cooking oils, i.e. the lowest price product.

Before the company proceeded to test market the product in October

1974 in the Harlech/Westward TV area, earlier that year, in May, two further tests were carried out so that any deficiencies in the product, production techniques and distribution which might otherwise emerge during the test market could be rectified as early as possible. First, the product was test marketed in a town - Haverford West, which was clearly on a smaller scale than the proposed test area, for the purpose of verifying that Superfry could be produced and distributed satisfactorily under actual market conditions.

Secondly, a further evaluation of the product was undertaken, albeit on a limited scale, to test production from a pilot plant. To date, Superfry had been produced in the firm's development laboratories; production on a pilot plant involves a trial time in the factory. The products from the pilot plant were used in the town test, and by a small sample of the company's staff who had been recruited because they were deep fryers of food. This panel of 44 employees tried out Superfry at home for a fortnight, kept a usage diary and completed a questionnaire.

Superfry was eventually launched in the test market area in October 1974. It was available in a tub pack in two sizes - 1b and 2lb, selling at 28p and 56p respectively. The brand was advertised in the test market area with 45 second and 30 second television commercials which told consumers about the brand as follows:- simple awareness of its market presence; that it is a vegetable oil; that it has setting properties; that it is suitable for shallow as well as deep frying. In addition, money-off coupons were distributed to encourage trial of the brand: 900,000 6p coupons were distributed in Harlech TV area and 300,000 10p coupons in Westward

TV area (100,000 of the former and all the latter coupons requested the redeemer to provide their names and addresses on the coupons so that they could be contacted and interviewed about the product.)

Post-launch research

Two pieces of research were commissioned to examine the launch of Superfry into the test area.

1. In January 1975 qualitative research on the progress of Superfry was undertaken. This consisted of six group discussions to examine consumer attitudes towards the brand. The majority of women in each group undertook shallow and deep frying of food.

   Many housewives had experienced difficuity in finding Superfry in the shops after their interest had been aroused by advertising and coupons. They also complained that even where it was stocked, it was difficult to find because of lack of displays and promotion. There was the additional difficulty that whereas many housewives expected to find Superfry next to cooking oil, it was stocked alongisde cooking fats. Furthermore, some housewives had difficulty in translating the pound weights into liquid equivalents so that it could be compared in quantity and price with their present products. In particular, oil users wanted reassurance that Superfry was no more expensive than cooking oil; the housewife who used cooking fats needed to understand that Superfry was not much more expensive than her usual product. The suggestion was made in this qualitative research that Superfry might be better value if it could also be used for baking, roasting, and perhaps other forms of cooking. The group members also expressed a wish

for more information on the time interval before Superfry can be poured back into the container. i.e. was it necessary to wait as long as suggested? Related to the last point was the suggestion that a stronger container that could withstand a higher temperature oil would be preferable. Finally, information was requested on the amount of Superfry required for shallow frying to avoid waste.

2. In February 1975 another study took place among users and non-users of Superfry to establish the extent to which it was being used for deep frying and for shallow frying and therefore how far it had replaced cooking oil and white fat respectively; to determine how far housewives in general were aware of Superfry and understood its qualities; and finally to asses how those who had tried Superfry understood its qualities particularly in relation to white fat and cooking oil.

The main facts which emerged from this research were: most housewives who purchased Superfry used it for deep and shallow frying; that it appealed more to housewives who used cooking oil than to those who used white fat, and that the product concept was also more favourably received by housewives who used cooking oil; those housewives who had tried the brand thought that it was superior to other frying agents because it could be reused, caused less mess, was convenient, and attractively packaged. Among all Superfry purchasers there was an objection to the price; the test market showed an encouraging level of usership of the product and also favourable opinions of the brand.

Lapsed Usage Check

During the early weeks of the launch of Superfry into the test market area deliveries were extremely encouraging, but by the summer months of 1975 they had begun to fall to a very low level which caused concern about the development of the brand in the market. As a result in August 1975 a survey was initiated to search for the reasons for the decline, and to re-evaluate the likely repeat purchase level for the brand. The results of the survey showed that the level of interest in the product remained high; however, problems relating to taste and price accounted for a substantial proportion of the reasons for rejecting the brand. At this time an estimate of the likely long-term share of the brand, admittedly subject to a considerable degree of error, showed that if brand loyalty of 50 per cent was assumed this would result in a 4 per cent share of the market.

Previous research into Superfry had indicated that a certain proportion of purchasers had complained that the product had a 'peppery' taste although it had not appeared to be a major problem.[1] Since this could have been caused by a setting agent in the product, it was thought that an alternative hydroxystearic acid might help to eliminate the problem. Accordingly, research was undertaken among samples of housewives who used lard and cheap cooking oil for deep frying with the original version of Superfry, and with an alternative version using a different acid. In the in-home tests that took place there was no evidence that this alternative version of the product would reduce any of the adverse taste effects. On the contrary, there was a suggestion that housewives who use cooking oil found the adverse taste effect worse than the alternative version.

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[1] see footnote overleaf

As a result of this research the company decided not to proceed with the product.

I It is probable that the change in taste could have been the result of a slight product reformulation due to raw material costs which took place at a very advanced stage of development of the product, i.e. when the pilot plant was established and that early product research had therefore been investigating a slightly different product.

CASE HISTORY 5

Product: Persil Automatic

Firm: Lever Bros.

The washing powder market has several distinctive features.

Purchases of washing powder used almost exclusively for washing clothes have risen over the past 20 years to 347,000 tonnes per annum, £224 mln at 1979 retail prices. Between 1976-79, for example, the market grew by an average of 5 per cent annually, reflecting the higher consumption of powder by the owners of automatic washing machines which have made washing clothes an easier task, and the predominance of materials which require little or no ironing. Furthermore, purchases have been somewhat higher than these figures suggest because washing powder was formerly used for dishwashing and household cleaning. With the development of specialist products for these purposes, they no longer form part of the washing powder market.

The market is dominated by two major manufacturers plus a number of distributors' own brands (DOBs), none of which are manufactured by Lever Bros. or Procter & Gamble. Besides these two companies and the 'own name' brands of multiple and supermarket chains, there are several international organisations which have the technical potential to develop branded products for the U.K. market, i.e. Colgate-Palmolive, Henkel, B.P. (who have acquired Robert McBride (Middleton) Limited) and Teneco (who have bought up Allbright & Wilson, the manufacturers of distributors own brands).

Furthermore, this market has been characterised by product innovation (synthetic dtergents, powders with enzyme addittives, solvent based detergents, and low suds washing powders), and by frequent reformulations of existing products to keep pace with developments in washing machine technology, in types of fabrics, and in the washing powder market.

Two major factors have affected consumers' preferences for different types of washing powder, viz: (a) the growing ownership of washing machines, in particular the purchase of front-loading automatic washing machines, and (b) changes in types of fabrics. Furthermore, the temperature at which clothes are washed has declined because of the predominance of man-made fabrics and the tendency to mix loads of different types of washing.

Table 1

a. Ownership of Washing Machines.

	1962	1975	1978
	%	%	%
Total home ownership	47	74	76
Type			
Single tub	34	18	14
Twin tub	12	31	30
Automatic*	1	25	32

* Of the 1.06 mln automatic washing machines sold in 1978 over 90 per cent were front-loading.

b. Shirt materials

Type	1962	1975	1977
Man-made fibres	7	31	10
Cotton	90	23	28
Mixture	3	56	60
Colour			
Coloured	20	80	88
White	80	20	12

Source: Lever Bros

Washing powders can be divided into two broad categories - heavy and light duty. The heavy duty sector predominates: the light duty sector consists of such products as Stergene, Derft and Lux Flakes, specifically designed for washing delicate clothes and fabrics. The share of the heavy duty market held by each manufacturer has changed over the past decade:

Table 2

Share of Heavy Duty Washing Powder Market.

	1969	1973	1979
	%	%	%
Lever Bros.	45	47	51
Procter & Gamble	52	44	40
DOBs and Others	.7	9	.9

Source: Trade Estimates

The most significant change in the heavy duty market over the past

decade has been the introduction of low-suds washing powders (Persil Automatic and Surf Automatic by Lever Bros., and Bold and Daz Automatic by Procter & Gamble) for use in front-loading automatic washing machines at the expense of other types of washing powders, viz:

Table 3

Share of Market of Different Types of Heavy Duty Washing Powder 1969-79

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Lever Bros.											
Persil	21	20	20	20	18	19	18	19	18	16	15
Radiant	9	11	9	7	6	6	4	2	2	2	1
Omo	8	9	7	6	5	5	4	2	1	1	1
Surf	5	6	8	9	10	10	9	8	8	8	7
Drive					1	2	6	7	6	4	4
Low Suds											
Persil Auto	1	2	3	4	6	8	10	12	14	19	23
Surf Auto										1	1
Procter & Gamble											
Daz	12	13	13	14	12	10	9	9	9	7	6
Fairy Snow	10	9	9	9	8	6	6	7	7	6	6
Ariel	22	18	18	17	15	14	14	15	14	13	12
Tide	6	6	6	6	6	6	6	6	5	5	4
Low Suds											
Bold					4	5	6	6	6	6	9
Daz Auto										1	1

Source: trade estimates

The tonnage of low-suds washing powder doubled between 1975-9; by 1979 sales of low suds washing powder comprised 34 per cent of the heavy duty washing powder market.i.e. £75 mln.

Table 3 shows that by 1979 low-suds washing powder comprised 34 percent of the heavy duty washing powder market. Lever Bros. larger share of this market is the major factor accounting for their higher share of the <u>total</u> washing powder market in 1979, compared with 1969, i.e. 44 per cent in 1969, and 52 per cent in 1979. (See Table 2).

<u>The product</u>

Persil Automatic was the first washing powder in this country especially formulated to have a low-lather performance to make it suitable for front-loading washing machines. Conventional high-suds washing powders are unsuitable for these machines because the rotation of the drum causes excessive foaming which may lead either to clothes being washed inadequately or the machine becoming clogged and/or foam spilling onto to the kitchen floor. If, in order to avoid the risk of foaming, only a small amount of high suds washing powder is used then clothes do not get washed properly.

Low-suds washing powder differs significantly from other washing powders and has different performance characteristics: the powder must be able to dispense and disperse automatically, and when combined with the smaller amount of water used in a front loading automatic washing machine it must not clog up the pipes of the machine. As

a result of these requirements, low-suds washing powder is technically a more complex product.

Persil Automatic was introduced in 1968. At that time (see Table 1 a) the U.K. market comprised a minority of houswives who owned front-loading washing machines but who were unable to purchase a product made either of the major detergent manufacturers specifically to fulfil their needs. The only suitable product then available, Pat, was poorly distributed and little advertised; as a result it was neither well-known nor readily obtainable.

A new opportunity clearly existed in the washing powder market for the introduction of a new product. Although this would not be economically viable straightaway because of the restricted market, if it was successful, sales could be expected to rise as the ownership of front-loading machines expanded. However, one particular disadvantage of entering the market so early was the difficulty of forecasting the rate at which the ownership of these machines would grow. Although on the Continent front-loading machines had quickly become established as the predominant type, it was not certain that this would necessarily occur in this country because the ownership of twin-tub machines had become firmly established (see Table 1 a), a development which had not occurred on the same scale elsewhere. Furthermore, because of the specific product characteristics of a low-suds washing powder, it was not found possible to modify the formulation of Lever Bros. major brand, Persil. In order to avoid the major expenditure of technical, marketing and financial resources that would be necessary to develop a new brand it was decided to adapt to British requirements work already carried out by other Unilever companies in Europe into

the technical formulation, packaging and advertising policy of a low-suds washing powder. Then the major decision had to be made whether to market the new product with a new name and pack which would distinguish it from other Lever Bros. washing powders, or whether to market it as a variant of an existing brand. Both these courses had advantages and disadvantages.

The advantages of an independent brand would be a greater degree of flexibility in designing all aspects of that brand to meet established consumer needs. No aspect of the brand would have to be compromised to avoid conflict with the parent brand. However, experience indicated that this course of action might well prove unsuccessful because the initial small size of the market and the limited promotional resources consequently available would make it difficult to build up adequate levels of awareness and understanding of the brand. In addition, it might prove difficult to achieve adequate distribution of a new brand with limited promotional resources.

The alternative case for launching the variant of an existing brand were that, if successful, there would be major economies in advertising and presentation. For example, the use of an existing brand name with some modification would help to create an image for the product without heavy investment advertising. However, this course of action had two important disadvantages. First, consumers might be confused by two brands with similar names which ran the risk that most of the sales of the new product might be at the expense of the established brand. Secondly, some degree of flexibility would be lost as the existing consumer attitude to the basic brand would need to be taken into account in deciding the presenta-

tion approach for the new variant.

A decision between these two alternatives (an independent brand or a variant of an existing brand) was clearly difficult to make without the accumulation of further evidence. It was therefore decided that both approaches would have to be developed and tested. Since management resources were limited, the approach which offered the chance of the greater return if successful, and with fewer long-term difficulties was selected to be examined first - the independent brand. Under the name 'Skip' the product was test marketed in the Yorkshire area which constitutes about 10 per cent of the U.K. population. Since the number of potential customers was very small, advertising was confined to a few publications with comparatively low circulations which were however read by a substantial proportion of the target group. Unfortunately, no similar coherent pattern about the target group's shopping habits could be deduced. Since little investment was available to secure widespread distribution through the grocery trade, it was only possible to aim for a low level of distribution and anticipate that the brand's success would stimulate a slow growth in distribution in the area.

The preliminary results of test marketing Skip in 1966 were disappointing. The 'low key' approach was clearly unsuccessful; awareness of the product among its target group was lower than expected and distribution through the grocery trade failed to attain the predicted level. Before abandoning the test market altogether it was decided to discover whether higher levels of investment in advertising would take the brand through some sort of threshold of consumer awareness and thereby raise sales to an acceptable level.

This entailed advertising on television for the first time, and introducing special trade activities in order to stimulate distribution. Both these measures improved awareness and availability the product, and subsequently the level of sales; but the degree of improvement did not justify the extra investment cost.

As a consequence, the firm withdrew from the test market, and decided to test a variant of an existing brand, Persil Automatic. Persil was chosen in preference to other Lever Bros. lines for several reasons; it was a long established brand with an equally long-established reputation for washing clothes at all temperatures. Its association with washing machines was very strong, dating from the early 1950's when washing machine manufacturers found it particularly suitable for use in washing machines and recommended it for this purpose. Because it was soap-based, Persil could also be used in front-loading washing machines, although it was a high-suds powder. Frequent reformulations to incorporate technical developments had enabled Persil to keep pace with changes in washing machine technology and in washing powders, with the result that despite the widespread penetration of synthetic detergents in the middle of the 1960's it still accounted for over 25 per cent of the total washing powder market. It was this direct relationship with washing machines which made Persil a suitable vehicle for the introduction of a variant specifically aimed at fulfilling the market need for a low lather powder which gave a better performance than existing products in these front-loading machines.

The major concern about the new brand was its possible detrimental effect on the image and sales of Persil. Furthermore, as the

performance characteristics of Persil Automatic were different, this confusion could result in dissatisfaction and even withdrawal by Persil users. On the other hand, if the new brand was successful, it would help improve Persil's image by demonstrating that the parent brand had become more modern and up-to-date. The Persil name could also continue to be recommended by washing machine manufacturers for all types of machines.

The choice of test market was determined by two considerations. First, the risk to Persil had to be minimised, therefore the test market had to be fairly small, and preferably in an area in which Persil was relatively weak. Secondly, since Persil Automatic had in the short term a very limited potential market because of the relatively few lather-intolerant machines in use, it was important that ownership of these machines in the area chosen should be as high as, if not higher than, the national average. Southern Television area best met these criteria.

Before test marketing Persil Automatic, market reserach had been carried out on the package design, since packaging would be an important factor in emphasising the differnece between the two products. However, how far consumers were likely to be confused by the two brands, and their attitude towards the new brand - these questions could only be resolved in the market place and not in an artificial test situation.

The price to be asked for Persil Automatic was higher than for standard Persil for two reasons. First, the formulation for a low lather product was more expensive, and secondly, the small size

of the market would not allow the benefits of the economies of scale which were enjoyed by the higher tonnage powders.

The brand was advertised on television with a straightforward educational approach. The difference between Persil and Persil Automatic was clearly explained; it was also stressed that Persil was keeping up-to-date with new washing machine developments, and that leading manufacturers now recommended Persil for both front-loading washing machines as well as for other types.

Distribution was obtained very quickly indeed, an important advantage of using the Persil name. Sales built up rapidly, and the previous concern about the brand's possible adverse effects on Persil was dispelled by the results of a market research investigation carried our after the launch. Although the brand was taking sales away from Persil, this was not due to the similarity of name, but because Persil had been the brand most used in frontloaders because of its relatively low lather and its association with washing machines. It was found that there was little confusion between Persil and Persil Automatic; non-owners of front-loading washing machines were mostly unaware of the existence of Persil Automatic.

These favourable results stimulated the firm to extend Persil Automatic quickly into national distribution. It was anxious that Persil Automatic should be accepted in the market as the brand of washing powder suitable for front-loading washing machines before the anticipated introduction of a competitive product by its major rival. It was also keen that Persil Automatic should become firmly established before the rapid growth of suds-intolerant washing machines weakened

the close link that had been built up over several years that Persil was suitable for washing machines. In addition, it was considered important to obtain the endorsement of washing machine manufacturers that Persil Automatic was more compatible for front-loading automatic washing machines than any other washing powder.

Once Persil Automatic had been launched nationally the emphasis in the advertising continued to be educational explaining why it was the brand of washing powder most suitable for front-loading machines, and the pack also continued to be used for educational purposes. At the same time, in order to safeguard the future position of Persil Automatic to some degree, a contract was negotiated with washing machine manufacturers to supply a smaple with every front-loading machine. This was to ensure that it would be the first brand tried by the housewife in her newly acquired machine as the market expanded and encouraged the entry of competitive products. By the end of 1970 Persil Automatic had become established as the brand recommended by manufacturers and electrical dealers. It had also from the outset been a commercial proposition because until 1971 it was sold with very little expenditure on advertising.

Competition 1970-79

As Lever had anticipated, it was not long before their major competitor, Procter & Gamble, entered the low-suds washing powder market. In 1970, Procter & Gamble's brand, Bold, was test marketed in the Southern Television area. Unlike Persil Automatic, it had been formulated for all types of washing machines (suds intolerant and tolerant) doubtless because the front-loading washing machine market was still considered too small to justify a specific washing

powder. This version of Bold was withdrawn once it became apparent that housewives were uncertain for which type of washing machine it was intended. By the time Bold was relaunched nationally ln 1973 specifically for suds-intolerant washing machines, Persil Automatic was selling 24,000 tons annually, amounting to some 6/7 per cent of the heavy duty washing powder market. The major difference in the formulation of the two brands was the addition to enzymes to Bold.

Since the introduction of a second major brand, competition in the low-suds washing powder market has been intense, as each firm has sought to secure a larger share of an expanding market. Furthermore, in 1974-75 DOBs of low-suds washing powders were introduced and quickly achieved 12 per cent share of the market. Then, in 1978 and 1979 respectively, each firm established a new brand, viz: Daz Automatic (Procter & Gamble) and Surf Automatic (Lever Bros.)

A combination of competitive devices such as advertising, samples, competitions, free offers, trade discounts and principally Temporary Price Reductions have been deployed to build up the sales volume of Persil Automatic as quickly as possible to achieve economies of sale, lower unit costs, and profit from increasing share of the market. In 1979 ownership of front-loading washing machines was still increasing at the rate of 10 per cent annually.

Advertising is seen primarily as a means of stimulating demand over the long term by informing the consumer what the brand offers, and how it can be used most effectively. The advertising theme has become less educational as front-loading washing machines have become more common, and has stressed the brand's performance in achieving

good washing results. In addition, Persil Automatic has increasingly participated in the advertisements of washing machine manufacturers who recommend Persil Automatic for use in their washing machines. Closely associated with the long-term purpose of advertising, the value of samples in encouraging housewives to use Persil Automatic from the time they purchase a new washing machine has been recognised, and negotiations have continued with all washing machine manufacturers for full-size packs of Persil Automatic to be included in the drum of their front-loading washing machines.

As a complement to advertising and to serve a different purpose, short-term promotions are employed to provide the consumer with an additional incentive to purchase Persil Automatic at the point of sale, and in particular to generate interest among retailers to feature the brand, provide additional display space, and gain participation in retailers' own promotions. Six or seven promotions are organised annually which may not change the consumer's view about the brand, but focus trade interest on it, e.g. competitions (which have sometimes featured as prizes the products of washing machine manufacturers to emphasise the close link between Persil Automatic and front-loading washing machines); a joint promotion with British Rail of a 'free' rail ticket in return for four tokens collected from one or more Lever Bros. products, including Persil Automatic. Competitions are also organised in conjunction with a specific retailer e.g. Tesco. In this instance, participants are required to send in a specified number of proofs of purchase from Lever Bros. products, as well as a till receipt from the retailer. This exclusive tie-up gains participation in the retailer's own promotional schemes, and in the retailer's advertising. Furthermore, trade bonuses are nego-

tiated with retailers as a means of gaining shelf and floor space and being featured in retailer advertising.

However, the major proportion of promotional expenditure on Persil Automatic is in the form of TPRs, either 'money off' or 'price-marked' packs. These have been introduced on a larger scale as the consumer has become more price sensitive to encourage trial and retrial of the product, and as competition between retailers has intensified, and concentration of retail trade has accelerated, e.g. 50 per cent of sales of Persil Automatic are made through four distribution outlets. TPRs can be effective in encouraging purchasers of DOBs, the most price sensitive consumer, as well as the less loyal brand shopper, to try Persil Automatic.

These sales promotions, combined with the general distribution strength of Lever Bros. sales force have helped to ensure a widespread distribution penetration of Persil Automatic, viz:

Table 4

Distribution Penetration of Low-Suds Washing Powders, 1977-1980.

Year	Persil Automatic	Bold
Jan 1977	63	47
July 1977	66	48
Jan 1978	70	52
July 1978	70	55
Jan 1979	60	47
July 1979	70	53
Jan 1980	73	55

Source: trade estimates

When Bold entered the market in 1973, sales of Persil Automatic were adversely affected by its advertising and sales promotion campaign. Between 1975-8, however, by the deplgyment of its 'mix' of sales promotion techniques and, in particular, by offering TPRs more frequently than Bold, and with deeper price reductions, sales of Persil Automatic expanded by 100 per cent, whereas those of Bold incrased by 15 per cent. This deliberate policy of reducing margins to achieve volume was pursued still further in 1978-9 because it was discovered from research that many consumers were still using heavy duty washing powders although they had purchased front-loading washing machines. The following table shows the changes in market share which took place between 1977-9, and also the effect of the introduction of two further brands (Daz Automatic, Procter & Gamble; Surf Automatic, Lever Bros) which seem principally to have reduced the market share of DOBs.

Table 5

Share of Low-Suds Washing Powder Market (Volume) 1977-79

Brand	Year		
	1977	1978	1979
Persil Automatic	58	60	59
Bold	25	21	24
Daz Automatic	0.2	3.1	6.0
Surf Automatic		1.8	2.0
DOBs	15.4	13.0	8.0
Others	1.4	1.4	1.0

Source: trade estimates

Case History 6

Product: Quick Custard

Firm: Batchelors Foods Ltd.

In March 1978 two competing brands of instant custard - Batchelor's and Brown and Poulson - were introduced almost simultaneously into the old established custard market. In April 1979, a famous name in this market, Bird's (General Foods) also introduced an instant custard powder.

Batchelor's Quick Custard is a mixture of custard powder, sugar and dried milk packed in a foil sachet. When boiling water is added to this mixture and stirred it reconstitutes to liquid custard. The product is both time and labour-saving because the need for saucepans and washing-up is eliminated. Furthermore, unlike traditional custard powder, the addition of milk and sugar is not required which guarantees greater consistency of end result.

The product

Since its introduction in 1839 the custard market has been dominated by Bird's, an instance of a brand name which has become synonymous with a product. Originally, custard was served as a cold pudding. Its modern history dates from the inter-war period when it was taken increasingly as a hot pouring sauce; 75 per cent of it is used in this way. Over 63 per cent of housewives serve custard, and most of them have stocks in their larders at most times. Custard is served up to three times a week.

The market

The custard market was in slow long-term decline from at least 1952 until 1969 when the first convenience custard was introduced in cans. During this period efforts to stem this decline were made by Bird's with the introduction in 1958 of a number of flavoured custards which stimulated the market temporarily by 7 per cent and restored it to its 1956 level. This expansion in sales was however short-lived and not sufficient to stabilise the market against the long-term contraction. During the latter period of slow contraction during the 1960's, there was little or no advertising in this market as there seemed little prospect of growth; sales nevertheless totalled some £13 mln (at 1977 prices).

Several factors had combined to intensify the competition facing custard powder. Among these were the wider choice of 'afters' on the market, the tendency for many housewives at work and with rising incomes to prefer convenience desserts, and the change in taste towards lighter sweets.

The introduction of canned custard (which became possible as the result of a technical advance - aseptic canning) first by Ambrosia and Heinz and then followed several years later by Birds in 1975, stimulated the expansion of the total market, although the slow decline of custard powder persisted, viz:

Table 1

Value of Custard Market 1969-77 (at 1977 prices).

Year	£ mln	Powder %	Canned %
1969	13	90	10

1977	16	66	34

Source: trade estimates

Thus in 1977 custard powder still retained the predominant share of the market; some of the expansion in canned custard sales had been the consequance of intensive price cutting. The relative importance of canned and powder custard by value, packs and servings are outlined below.

Table 2

Custard Market 1977 by Value, Packs and Servings

	Powder	(%)	Canned	(%)
Value	£10.6 mln	(66)	£5.4 mln	(34)
Packs/cans	£50.0 mln	(60)	£33.0 mln	(40)
Servings (pints)	£573.0 mln	(96)	£25.0 mln	(4)

Source: trade estimates

It can therefore be seen that whereas canned custard in 1977 accounted for more than one third of total sales in value, the overwhelming proportion of servings were still from custard powder.

In the two sectors of the custard market in 1977, the shares of the various brands were:

Table 3

Custard Market Brand Share (value) 1977

Powder	%	Canned	%
Birds	61	Ambrosia	36
Own labels	28	Heinz	30
Others	11	Birds	27

Source: trade estimates

It was into this market situation that Batchelor's decided to introduce Quick Custard which had several advantages over canned custard, (i.e. a lower price, no saucepan required to make hot custard,) lighter packaging, the housewife could still be involved in the preparation of the custard and determine the degree of thickness required by varying the quantity of water added.

Although the company was entering a market with which it was unfamiliar, it nevertheless believed that it possessed several important assets which would ensure success. First, it had the technical expertise in producing dried products (e.g. soups and vegetables) and packaging them successfully. Secondly, it had an efficient handling and distribution organisation geared to the grocery trade. Finally, and just as important, the company was confident that the formulation of this product was a technical advance which could not easily be imitated by competitors. It was, however, aware that at some subsequent, if speculative future date, other firms particularly Birds would develop a similar product, and that this factor would need to be taken into account in setting financial targets and strategy. Nevertheless, because of the prevailing conditions in food

manufacturing and retailing a technical advance can often be the decisive factor in determining whether a firm's financial target can be attained. On the one hand, the intense competition in food manufacturing caused by excess capacity and a consequent tendency for marginal costing leads - when products are technially simple to copy - to their speedy introduction by competitors, followed by severe price discounting. On the other hand, the increasing homogeneity of supermarkets and the competitive pressures on distributive margins stimulates grocery multiples to seek out distributors own brands (DOBs). When new products can be copied easily retailers find it easier to introduce DOBs which are then sold more cheaply than the manufacturer's brand, but at a higher retail margin.

New products emanate from a variety of sources, not least a fortuitous technical development. The company's first version of a quick custard in 1970, for instance, was a spin off from the general research being undertaken into dried foods by the firm's laboratories. It was not proceeded with because the custard mix needed to be added to hot milk, and the taste proved unacceptable when tested among a sample of housewives.

In 1977 the present and significantly different version of Quick Custard was the result of a technical development which had been applied to the firm's instant soup product - 'Cup-a-Soup'. Although the new product had no direct link with the earlier research, the marketing department no doubt recalled its previous experience with a quick custard product, and therefore quickly recognised the significance of the new process.

In 1977, therefore, before the product was marketed the company undertook its standard market research tests with large samples of housewives to discover how far Quick Custard was acceptable for formulation, taste, texture and price, and to what extent these factors required modification.

In the product tests the potential market for Quick Custard was evaluated by asking samples of housewives to compare the relative merits of powder, canned and quick custard for a variety of attributes, viz. quick and easy to prepare; no messy pans; no milk needed; familiar form; consistent end result; good quality; thickness can be varied; inexpensive. On all these attributes Quick Custard scored highly. For instance, after the samples of housewives had tested the product at home for a stipulated period, the respondents considered that Quick Custard was highly comparable in taste and texture to the usual custard that was served; that it was quick and easy to prepare; and that the respondents would be prepared to serve Quick Custard more frequently than they served traditional custard. Research also suggested that the preferred quantity of Quick Custard per pack was three-quarters of a pint - the same as the contents of canned custard.

As part of the company's standard market research tests a comparison and evaluation of Quick Custard was undertaken against two competitive products - Heinz Canned Custard, and Brown & Polson Instant Custard which since September 1977 had been on sale in a test market area. The results showed that Batchelors was liked equally with Heinz canned custard; but preferred to Brown & Polson. In addition, preparing Quick Custard was easier and quicker because it did not need whisking in a

bowl, and its notional price was lower. This routine evaluation led to some small changes in the colour and flavour of Quick Custard.

Despite the knowledge that Brown & Polson (a firm already well-known in the dessert market for custard powder and blancmanges) were also preparing to launch an instant custard, Batchelors were confident from this research that they had a technological lead and would be maintaining product superiority in the market for some time. Batchelors were also aware from their own development work that the technical process on which Quick Custard was based had become considerably simplified, a factor which would stimulate the entry of competitors.

The next stage in the marketing process was to move away from the controlled conditions of testing, and discover how the product performed in the marketplace where circumstances are invariably different from the unavoidably artificial testing methods which are used to forecast the acceptability of a product in the first instance.[1]

Test marketing in a television area is the conventional method of assessing the performance of a product in a real-life situation before the larger expense of the national launch is incurred. As is well known, however, test marketing is a long laborious process which may last up to nine months or a year, and which has several important

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[1] Batchelors, however, also undertakes the Marketing Mix Test which is an intermediary stage of research between the individual tests undertaken on formulation, pack, name, price, advertising and so on, and testing in the market place. It has been designed to test consumer response to the whole marketing mix rather than the individual elements. See 'Marketing Mix Test', K. Clarke (Marketing Services Manager, Batchelors) and M. Roe, 1977, Market Resarch Society Conference Proceedings for further details.

drawbacks. In particular, it enables competitors to find out about the forthcoming national launch of a product, as had occurred in this instance, enabling them to intensify their promotional activities in the particular area, and buy up the product. These competitive tactics often effectively invalidate the test market findings. In addition, it may be difficult to achieve adequate distribution in a test market because national multiples often refuse to stock a product in a selection only of their branches, etc. Despite these acknowledged disadvantages of test marketing, it persists because firms are anxious to use any method, even if imperfect, in order to reduce the risks of a full-scale launch.

In place of the normal procedure of test marketing in a television area Batchelors employed an alternative method of making a preliminary judgement of Quick Custard under more realistic conditions - the Mini-Van Test[1] - operated by Forecast Market Research Ltd. Although this method diverges in many important respects from an area test market, nevertheless experience has shown over a number of years that its results provide a reliable guide to a national launch. Besides being comparable in predictability to a test market area the Mini-Van test has the advantages of speed, economy, and confidentiality. These assets were particularly valuable to Batchelors with their knowledge that a competitor was about to introduce a similar product. In the Mini-Van test, Quick Custard expanded the total custard market by over 10 per cent.

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[1] The major features of a Mini-van test are: (1) sales are made from a van and not via shops; (2) a panel of 1000 housewives is utilised instead of the random selection of shoppers in a test market area; (3) these housewives see details of a new product for the first time by means of magazine advertising in The Home Shoppers Gazette, sent to every panel member each month; (4) test completed usually in 16 weeks.

Moreover, the brand was purchased by 23 per cent. of housewives in only 11 weeks and, most important, a high level of repeat sales was achieved. In view of these encouraging signs from the Mini-Van test, the firm decided to introduce the product nationally in order to be first in the shops. This took place in March 1978. Brown & Polson followed with their launch of Instant Custard three weeks later which Batchelors believed was earlier than had been planned in their original test marketing programme.

Firms are eager to be ahead of their rivals in the market with a new product because of the quicker trade distribution and consumer trial this normally ensures. This factor alone, however, is unlikely to sustain sales unless the product itself has also proved satisfactory to consumers.

Promotion

Between March 1978 when Batchelors Quick Custard was launched nationally and December 1978 some £600,000 was expended on promotion and marketing. Sixty per cent. of this sum was spent on television advertising, 20 per cent. on price reductions to the trade; and 20 per cent was expended on consumer promotions. The consumer promotions comprised flash offers of '2p off' on the pack and coupons, in advertisements which enabled consumers to buy at a reduced price. In addition, trade press advertising, display material and in-store demonstrations amounted to some £4-5000. To encourage smaller retailers to stock Quick Custard, a promotion designed specifically for voluntary groups and independent grocers included samples of the product, and a leaflet which gave details of

the sales promotion campaign and incorporated a 25p. off coupon to encourage trial purchase.

Once Quick Custard was launched nationally sales expanded very rapidly, particularly in the second half of 1978. Its major effect was to expand the total custard market. The entry into the market of two brands of instant custard almost simultaneously had little effect on the sales of custard powder; canned custard sales have however been adversely affected, and both Heinz and General Foods have withdrawn from the market.

Table 4

Share of Custard Market (Value) July-December, 1978

	%
Custard Powder	53
Canned Custard	22
Quick + Instant Custard	25
	100

Source: Trade estimates

In early 1979 the predicted entry of Bird's into the instant custard market took place, and immediately sparked off intensive price cutting by all the brands in the market. This situation was accentuated further by the introduction of some lower-priced brands, some of slightly lower quality, as well as distributors own brands. This competitive situation has led to increasing emphasis by all the major manufacturers on promotional expenditure at the expense of advertising, particularly trade deals and consumer promotions. At the end of 1979, for instance, Batchelors offered a marked pack promotion with 2p. off with the purpose of maintaining competitive

prices in smaller accounts and also the independent sector of the grocery trade.

By the beginning of 1980 the total custard market had declined still further in volume compared with 1979 as had sales of canned and traditional powder custard, whereas in volume instant custard powder had expanded by 50 per cent.

Table 5

Volume Performance of Custard Market

1st. Quarter 1980 v. 1st Quarter 1979

	Index 1st Quarter '79 = 100
Total custard powder	88
Instant custard powder	154
Canned custard	82
Traditional powder	84

Source: Trade estimates

Over the same period the relative share of the different types of custard on a servings basis were: powdered custard 85 per cent; instant custard 12 per cent; and canned custard 3 per cent. which would seem to suggest that there still exists ample scope for the expansion of instant custard powder.

As at March 1980, within the instant custard market, each of the three leading brands - Batchelors, Bird's, and Brown & Polson - had some 20-25 per cent. share of the market; while Bird's had an additional

25 per cent. share through its segmentation into flavoured instant custards. The remaining 10 per cent. of the market was divided between the smaller brands and DOBs. The relatively small share of the market held by DOBs to date is hardly surprising in view of the severe competition which has occured between the major manufacturer brands, particularly in trade discounts to individual retailers. In this marketing situation, the low prices of manufacturer brands has not provided the opportunity for multiple organisations to introduce their own brands with a worthwhile price differential.

CASE HISTORY 7

Product: Mr. Kipling Cakes

Firm: Manor Bakeries Ltd.

The Background

The development and concept of Mr. Kipling cakes dates back to 1960; the brand was launched regionally in 1967, and nationally in 1970 by Manor Bakeries.

In the early 1950s the Joseph Rank business was in flour milling, and it faced strong competition in a slowly declining market. As a result, British Bakeries was formed to build up a bakery chain, partly to guarantee outlets for flour, and partly to gain the economies of a more vertically integrated business. By 1960 British Bakeries had acquired a large number of regional and local bakery businesses. Most of these bakeries were selling cakes, though the type, quality, and degree of packaging varied widely: some were almost wholly selling 'tray confectionery' (daily delivery unwrapped cakes), some were making high quality, standard packaged cakes for Marks & Spencer. During the 1960s British Bakeries concentrated on rationalising this very diverse operation, but it was a gradual and difficult process because the nature of the business required local control. Although two small unadvertised brands of packaged cakes were being marketed, these had achieved only limited distribution regionally.

In view of the continued slow decline in the volume of bread sales, the company needed to generate new sources of turnover and profit. An investigation conducted into the strengths and weaknesses of the company's production facilities, marketing advantages, and financial position revealed clearly that any new product should be related closely to its existing products. Although the company, for instance, possessed considerable production facilities they specialised in flour, and flour-based products. Furthermore, the main marketing assets of the company

comprised: a large van sales force which is essential for the distribution of a short shelf life product such as cake; experience in the daily delivery of products; and close connections with a section of the grocery retail trade. All these factors were equally necessary for the marketing of packaged cake which has a shelf life of no more than two to three weeks. This basic characteristic of cake marketing requires the operation of a carefully controlled and expensive van selling system, and an efficient stock rotation system. A further marketing advantage which stemmed from the company's experience of short shelf life products was a detailed knowledge of consumers' tastes. On the other hand, because this operation had been on a local basis, little market research had been undertaken either into the cake market, or into the attitudes of consumers towards branded cakes.

The financial position of the company also pointed towards the introduction of a product which could make use of existing production facilities, because although investment capital was available there were many competing demands in the company for investment plant. A further factor which emphasised the value of introducing a product which could utilise existing resources was that the company owned one of the food industries biggest basic food research facilities, and some of the individual bakeries which had been acquired had undertaken a certain amount of process development work.

The Cake Market

Since all the preliminary investigations indicated that a future product should be flour-based, a short list of potential products was drawn up which included cakes.

In the early 1960s the available published data and trade sources revealed that cakes were a large and expanding market, i.e. at that time it was worth more than £100 m. per annum and had been growing in value at about 5 per cent annually. Packaged cakes were the fastest expanding

sector of the cake market, and grocers were becoming more important as distribution outlets. In general the quality of the products was low, although firms like Marks & Spencer had helped to raise standards. The market was very fragmented, and included a number of Distributors Own Brands. The two most well-known firms in this market were Lyons and Marks & Spencer.

Several important conclusions were reached about the basic requirements of the proposed new product from the economic analysis which had revealed the growing importance of cake sales through grocers, particularly through multiple grocers and supermarkets. Since this distributive sector pursued a merchandise policy of limiting the number of brands stocked in any particular product field to avoid product duplication, this implied that supermarkets would be more prepared to stock a brand of cakes if it included a complete range of cake types. Furthermore, the short shelf life of cakes would make a large and efficient distribution system essential. The ability to provide both these requirements seemed to be factors which favoured British Bakeries more than, say, Cadbury, who had entered the cake market on a test basis in 1963.

The predominant position occupied by Distributors Own Brands and supermarkets also suggested that the lower prices of DOBs compared with national brands would lead to pressure on profit margins, and this pressure would be further accentuated by the buying power of the supermarket groups. This feature of the market suggested the need to build up a strong national brand which could rely on continuous consumer demand to persuade retailers to stock it.

If the policy was adopted of establishing a national brand this would be a departure from the firm's traditional daily delivery of cakes, both tray confectionery and packaged cakes, tied to bread distribution. Although the latter had certain advantages over a national brand - greater flexibility, shorter production runs, closer personal links with retailers - it suffered from the major disadvantage of higher distribution

costs. Besides economies of distribution, a national brand had several other advantages over daily delivery of cakes, namely, a larger number of stockists, and economies of large-scale production which would enable consistent production to higher quality standards, better quality control, improved packaging and more advertising. Perhaps, of most importance, a national brand would provide the opportunity to build up profit margins in the long run based on consumer demand.

In the early 1960s several significant developments took place in the packaged cake business which helped to intensify the competition in an already competitive, although expanding market.

(1) DOBs were expanding their share of the market;

(2) The Bakery Division of Lyons, the brand leader, was restructured and this led to the introduction of aggressive sales promotion techniques, and a vigorous drive for improved distribution;

(3) After test marketing their range of cakes in 1963, Cadburys expanded into national distribution in 1965, and supported this launch with substantial advertising expenditure. This range was deliberately priced higher than Lyons range of cakes; promotion was based on product quality through the claim that all the products were made with butter;

(4) The McVities division of United Biscuits introduced a range of cakes onto the market in 1965 with very little advertising, but a large expenditure on merchandising at trade level. By 1967 the claimed turnover had reached £8 m. per annum.

In view of these competitive developments, plus the fact that many other large grocery companies appeared to be considering diversifying into the packaged cake market attracted by its present and potential size, and a relative absence of brand loyalty, the decision was taken that the company should introduce a new brand on a worthwhile scale nationally as quickly as possible.

Taking into account the analysis of the market, and of the company's assets, when in 1965 the decision was made to introduce a national brand

of higher quality packaged cakes suitable for display it seemed inevitable. Entry into this market offered more opportunities for product differentiation than bread. The company could capitalise on its existing skills and advantages. The data suggested, moreover, that this market could provide many opportunities for expansion, especially if economies of scale could be made in production. Entry into this market at this stage could enable the brand to get established, particularly in multiple grocers, before it became dominated by a few large brands.

The Product

The consumer research findings - published and commissioned - helped to form a picture of the cake market, and the consumers' attitudes towards cakes.

Attwood panel data revealed the breakdown of buying by product types, shop type and brand. Swiss rolls, for instance, constituted only a modest section of the market and was dominated by Lyons. On the other hand, 'small cakes' were the largest as well as the most fragmented section of the market, with no major brand specialising in it.

Survey data, including the National Food Survey and an Odhams Survey, provided some basic facts on who eats cakes and at what meals. Perhaps somewhat surprisingly, it emerged that adults were responsible for a larger share of this market than children, and that appreciable quantities are eaten as the last course of the meal.

Large-scale research into cooking attitudes, carried out by British Market Research Bureau in 1961, revealed how housewives viewed cakes, and the kind of competition that packaged cakes would face from home-made cakes. The research showed that home-baking, more than other forms of cooking, appealed to the pride and creativity of housewives, and was particularly linked with prestige and hospitality. There was also evidence of a trend to lighter, fancier cakes, usually made from recipes,

whose visual appeal was particularly important. There was a very strong feeling that home-made cales - baked by one's parents or grandparents - are the ideal! As a result, bought cakes were considered as dull, and there were misgivings about putting a bought cake on the table if friends came to tea.

Small-scale attitude research, group discussions and individual interviews, plus observation added to this information.

Prejudice still existed against bought cakes even from regular purchasers ("dry", "stale", "too long in shops"). Cakes are appreciated more for their appearance and taste than for their food value. Group discussions also revealed strong feelings about cakes as a treat rather than a food, and cakes from the local baker were preferred to those from the large manufacturer. A distinction was also made by consumers between 'modern' and 'traditional' cakes. The latter referred to the kind of cakes that could easily be made at home and had been for many years, e.g. sponge cakes, fruit cakes, jam tarts. 'Modern' referred to fancier, more unusual cakes, especially those unlikely to be made at home, e.g. almond slices, mini-rolls, battenburg. Although this distinction was not very precise, it did again denote the preference for home-made cakes rather than those made in a factory.

The research further emphasised the importance of the visual senses in judging cakes, and that they appeared to be judged in a visual sequence. First, the top of the cake symbolised the home-made cake - it must not be too regular. Secondly, a cut is made into the cake in order to judge its texture and freshness. Finally, a second cut is made into the cake, and this produces the first piece of cake which is placed on the plate, ready to be picked up and eaten. If all these stages are negotiated satisfactorily the cake tastes good before it reaches the mouth.

When this research into consumer attitudes was combined with the initial research into the market, it was possible to outline the

essential features of the new brand, and the marketing policy required to launch it.

Marketing Policy

The brand should comprise a complete range of cakes available nationally. At that time, Lyons were selling seventy lines; and there were at least thirty-five lines which had a reasonable level of sales. Some twenty lines were considered to be the minimum feasible number for a full cake range.

The cakes should be of higher than average quality. Within the product range, there should be concentration on small cakes for several reasons: they held a large share of the market; they were popular with 'heavy' cake buyers; they offered scope for innovation, process development and brand specialisation; and this segment of the market had been neglected by its competitors and was still dominated by bakers' cakes. Furthermore, efforts should be made to produce 'non-standard' rather than the 'standard' cakes included in virtually all manufacturers' ranges, e.g. cherry cake, jam and cream sponge, since this policy would avoid direct competition with other firm's ranges. (When they were launched initially Almond Slices and Manor House cake were unique to Mr. Kipling.)

Production should be concentrated into a small number of units to gain the economies of scale.

On pricing policy, this would, to a large extent, be determined by the price leader, Lyons. Although Lyons' prices were above those of most minor local brands, they were extremely competitive. The prices of Cadbury's cakes were higher than those of Lyons; the firm was selling a quality product, backed by the Cadbury name and heavy advertising. It was decided that initially Mr. Kipling's prices should be comparable to those of their competitors, although eventually they might justify a marginally higher price than Lyons on some lines through a quality appeal.

On distribution, the maximum use should be made of the company's distribution facilitation (a) by utilising the existing bread delivery

system, and (b) by establishing a specialised sales force based on the company's existing cake sales force. This would be necessary to ensure that the economic advantages (i.e. larger drops) of selling to larger stores would be achieved, because distributing through such retail outlets required van salesmen to merchandise the cakes.

Finally, the economies of distribution and production, plus somewhat higher prices should be utilised to finance higher quality cakes, advertising, and improved packaging that would help to extend the shelf life.

Product Quality, Packaging, Advertising

In order to satisfy the basic conditions of the cake market (that it was competitive, that a range of diverse products was required, that it would be difficult to demonstrate easily the difference between the brand and its competitors, even if new types of cakes were introduced) it was decided that the brand would only succeed if it could be made distinctive. As a result, product quality, packaging, advertising and display material were employed in a variety of ways, but with the one objective of conveying to consumers that the brand provided better value for money than other brands.

Product quality was enhanced by improving the consistency of quality by modifying recipes and introducing new machinery; new materials and/or new types of sealing were used to improve the shelf-life and protection of cakes; and new products were introduced to fill the gap which existed in the market between puddings and cakes.

Although the company believed that product quality would be the basic factor in ensuring consumer acceptance, the importance of the visual aspects of cakes required to be reflected in the name of the product, the design of the pack, and the advertising. The company also wished to convey the distinctive features of the brand, i.e. that it was made by a specialist cake firm as opposed to a manufacturer, that it was made by

traditional methods but on up-to-date machinery, and that it contained high quality ingredients.

The name of the product was also required to be suitable for a range of cakes partly because there is a rapid rate of change in cake types since people like variety, and partly because no single line would justify sufficient advertising expenditure to establish it. The name finally chosen - Mr. Kipling - apparently 'came in the bath' because it suggested a specialist company, somewhat traditional, giving personal attention. Research confirmed that housewives were ready to believe that a man could make cakes better than they did, as long as he was doing it as a full-time job, and they thought the name intriguing and different.

Besides the basic requirement of packaging that it should protect and preserve the product, the pack was designed with lettering and with an appearance that would distinguish the brand from its competitors; an unusual feature was the handle intended to convey the idea of cake as a treat or a gift rather than food; a large picture on the pack showed a cake with sections cut from it already for picking up and eating, and showing the inside of the cake to demonstrate its texture and moisture; and tear strips for ease of opening.

Finally, the major aim of advertising was to re-inforce the theme of the name and pack. As a result television was selected as the most appropriate medium because it could best express the characteristics of the brand, and especially the visual appeal of cake, e.g. the advertising film showed close-up pictures of cakes being cut into sections ready for eating, and a voice-over talking about 'Mr. Kipling' made the point that he was a specialist cake-maker. Thus all the aspects of the presentation of the brand including pack design, display material letter headings, van livery, salesmen's uniforms were integrated in order to create a consistent and cumulative symbol. The vans, for instance, provide a valuable moving poster advertisement.

The Regional Launch

In 1967 the regional launch took place with the setting-up of a new company, Manor Bakeries, a new brand, Mr. Kipling, and a new range of twenty-one cakes. This was a compromise between a national launch which would have required fundamental changes in the organisation and operation of the company, and a small test market which was an unrealistic alternative in view of the company's commitment to market entry as soon as possible. As a result, London and the South-East was chosen as the starting point for a national rolling launch which would establish the brand and forestall potential competitors. After a short period in London it should be possible to correct any major faults that came to light and utilise the London experience in other areas.

The regional launch of Mr. Kipling was accompanied by television, press and poster advertising, and trade promotional activity. It stimulated vigorous competitive opposition from its competitors, particularly in the form of price cutting; opposition was very intense from McVities which was now the second brand in the market.

Although sales started to grow quite rapidly as distribution was achieved, it was evident from an early stage that things were not going according to plan. Sales volume per van were below target, and the company was not meeting its financial objectives. In view of the elaborate logistical exercise which had been involved in making the launch, perhaps this was not altogether surprising. An immediate reappraisal of the situation took place, and it became clear that the difficulties that were being experienced in making the most efficient use of capital investment in plant, equipment and vehicles had been under-estimated, as well as some of the start-up costs. In addition, ingredient costs were higher than had been forecast.

Steps were taken to remedy these weaknesses: several lines that were completely uneconomic were withdrawn; improved production techniques were introduced; packaging costs were reduced by simplifying packaging

and packaging material, e.g. handles on packs were eliminated from some products, and film introduced in place of board on others in order to remain competitive; and formulae were modified on some cakes to reduce ingredient costs.

Retain audit data on distribution had been bought at intervals since the launch and showed an unsatisfactory state of affairs. In an area of the country dominated by multiple grocers, the distribution of Mr. Kipling cakes showed a relatively marked bias towards independent outlets. This was due to the refusal of some retail grocery chains to stock the brand because they found regional operations an inconvenience; other chains showed little interest in stocking cakes. An analysis of the van-selling operation revealed that drops below a certain level were uneconomic, and in the regional launch area a high proportion of drops were unacceptable.

Two key factors needed to be corrected: the relatively low level of sales due to the above factors meant that plant was working well below capacity with consequent disproportionately high overheads. To overcome this problem sales were increased by extending the launch area in 1968 to Lancashire, and a limited area of the north Midlands. This was done with minimal advertising support, and resulted in a valuable addition to sales. The second key factor was distribution. Journeys were realigned, field supervision tightened and numbers of salesmen increased. Intensive efforts were made to obtain better distribution in multiple stores in order to increase the size of the average drop.

Perhaps, most important, it became clear that a more pragmatic approach was needed in the relative deployment of the specialised delivery system and the firm's bread vans. Bread vans, for example, were successfully used for distributing Mr. Kipling when the launch was extended in January 1969 to the South West, a region notoriously difficult for van sales of many products owing to the few major population centres and extended communications. As a result, local bakeries bread vans began

to account for a substantial share of sales once administrative and inter-company problems had been solved.

Finally, significant improvements in manufacturing techniques occurred when Mr. Kipling moved from its original factory which had proved uneconomic to three highly automated factories.

Early in 1970 distribution was extended by stages into the rest of the country. As the competitive situation in the cake market intensified and multiple grocers appeared increasingly reluctant to stock additional brands of cakes, it was considered essential to extend distribution as quickly as possible in order to gain entry into those major multiples who had refused to handle the brand as long as it was only distributed regionally.

The planned expansion of Mr. Kipling was slower than had been anticipated due to the changes and modifications, already noted, which it had been compelled to make in the operation of its business in response to tight retail margins and intense competitive activity. However, by 1972 - five years after entering the market - Mr. Kipling had become the second brand behind Lyons but ahead of McVities and Cadburys (the cake sections of which had merged in 1970). During this period Mr. Kipling had become the brand leader in the small cakes section, and had also expanded its number of lines from twenty to around forty, with more in various stages of development. More important, its financial objectives were being achieved.

During the 1970s the marketing situation in the cake market changed in several respects:

1. An increasing percentage of cake sales were being sold through grocers, and particularly through large grocers.

TABLE 1 Cake Market

Changing Pattern of Distribution, 1961-76

Type of Outlet	Year		
	1961	1966	1976
	%	%	%
Grocers	33	39	47
Bakeries	54	46	35
Marks & Spencer	6	6	7
All other outlets	7	9	11

Source: Trade estimates

2. While the cake market was relatively static during the 1960s, during the 1970s cake consumption declined by some 38 per cent. The decline from 4.58 oz. per head in 1969 to 2.85 oz. per head in 1976 has been due to a combination of factors including the growing emphasis on slimness; the changing social pattern of life which has eliminated to a large extent, the formal high tea; a revival in home baking of cakes due to relative increases in cake prices based on fluctuations in flour prices.

3. Competition in the cake market has intensified from two main sources, i.e. the introduction of frozen cream cakes which by 1978, held 6 per cent of the total cake market; and the stabilisation in sales of bakers' sales. The latter had declined by some 10 per cent between 1966 and 1971, but their share stabilised by the mid-1970s through the active promotion of the sale of fresh cream cakes in conjunction with the Milk Marketing Board. (On the other hand, the share of the market held by DOBs has declined chiefly through the fall in sales of Co-operative Societies' own brands, and the tendency of several other multiples to give more emphasis to branded cakes.

TABLE 2 Share of Cake Market of Different Kinds of Cakes

	1978
	%
Frozen cakes	6
Fresh catering packs	2
Loose cake (bakers' own)	32
Own label cakes	15
Branded cakes	45

Source: Mintel

Within this declining and competitive market the sales of packaged cakes have continued to grow, and the sector of that market - small cakes - in which Mr. Kipling has specialised has also continued to expand (contrary to the experience of cut cake and sponges) as they are often eaten as snacks or desserts.

In 1976 Mr. Kipling became brand leader. By 1979 it had one-third of the branded packaged cake market, viz.

TABLE 3 Brand Shares in Packaged Cake Market

	1972	1978
	%	%
Lyons	26	24
Mr. Kipling	12	30
McVities	13	6
Cadbury	11	6
Hales	7	7
Memory Lane	-	4
All others	31	24

NB: These percentages exclude Distributors Own Brands

Source: Trade Estimates

The leading position established by Mr. Kipling cakes appears to have been due to the successful implementation of the marketing policies it has pursued, viz. concentration in the expanding small cakes sector of the packaged cake market; emphasis on distribution to larger grocery outlets where turnover is usually faster which helps to minimise the ever-increasing

cost of van selling; combining, where appropriate, bread and van sales, again in order to make distribution more economic; and basing the operation of the business on the original consumer research which had revealed the physical and psychological qualities consumers associate with cakes, and presenting these in an integrated and consistent form.

CASE HISTORY 8

The Product: Catalogue showroom shopping

The Firm: Argos Distributors Ltd.

The Background

Argos introduced catalogue showroom shopping in seventeen showrooms in 1973, a method of retailing new to this country but already well-established in the United States and Canada where jewellery accounts for some 30 per cent of the turnover. The raison d'être of this system of distribution is to offer a wide range of branded merchandise at competitive prices by effecting economies in distribution costs.

The idea of catalogue showroom shopping had been brought back from across the Atlantic by Richard Tompkins (the founder of Argos' then associated company, the Green Shield Trading Stamp Co. Ltd.) who was seeking ways of expanding the original business. This method of shopping appeared to have two major assets: it would be attractive to consumers in the price competitive environment which had become a dominant feature of retail distribution in the 1970s. At the same time, it would permit the company to utilise and build on its existing strengths, i.e. the expertise it possesses in producing catalogues; the skills it had developed in acquiring retail property, in buying, and in operating warehouses and retail establishments.

The time of launching the company was both propitious and unpropitious. Since the Resale Prices Act 1964 had abolished the individual enforcement of resale price maintenance (RPM), price competition had been introduced in one type of merchandise after another. In the early 1970s there were however still a number of trades in which price competition remained weak or non-existent, e.g. toys, gardening equipment, jewellery, some sports equipment, because such merchandise was being sold mainly through traditional retail outlets. The opportunity existed therefore not only to sell products in which price competition was already widely prevalent,

and to compete with well-entrenched well-known retail firms, but also to enter product fields where price competition had hitherto been negligible.

Less fortunately the launching of the company coincided with the oil crisis of 1973. The company was gratified that initial sales were higher than had been anticipated which indicated that the new shopping concept was appreciated by the public; but it was less than happy that the prevailing economic conditions resulted in stock shortages and led to rancour with the public and the press.

Two significant changes have occurred since the company began. First, in 1978, the resources of Argos were combined with those of its then associated company. This had two consequences: eighteen of Green Shield's showrooms were converted to Argos showrooms in sixteen weeks which increased the firm's outlets by 40 per cent; Green Shield stamps could be exchanged at any of the Argos showrooms, with each filled saver book qualifying for an additional discount of 50p off the Argos discount price.

Secondly, in 1979 Argos was acquired by B.A.T. Industries Ltd., and became a wholly-owned subsidiary of B.A.T. Stores Holdings. By the end of 1979 the number of showrooms situated throughout the country had grown to ninety-one, and turnover had reached £105 m. per annum.

The Operation

The major economies in this method of distribution are four-fold: first, the shopping system occupies less space than traditional retailing with a consequent saving in rent and rates. Secondly, computerised stock control reduces the number of staff required. Thirdly, large-scale sales enable bulk orders to be placed with manufacturers, which ensures that maximum discounts are obtained, and lastly, displaying products in showcases reduces pilferage. In addition, staff costs are lower than in traditional retailing because the catalogue replaces assistants to some extent, and merchandise does not require to be wrapped. Storage costs are also

lower because many items are flat-packed, e.g. wheelbarrows and furniture to enable customers to transport them home easily.

The basis of the operation is that the customer obtains a catalogue which can be taken home and studied at leisure from the showroom, or browses through one of the catalogues available on the special counters in the showroom. When the customer has decided on an item a selection form is completed by giving details of the product, number and quantity required. The customer then proceeds to one of the service points where staff check that the order form has been completed accurately, and that the requested item is in stock. Then at the cash register the purchase is paid for by cash, cheque, or credit card. The customer finally moves to the despatch counter, where the item purchased is ready to be taken home.

The four-sequence procedure can be completed in as little as three minutes because the purchasing system in the showroom is computerised, and in the latest showrooms when the customer's order form is checked at the service point a Comet electronic stock-verification system confirms that the entered price is accurate, that the item on order is in stock, and indicates how many of that item is in stock in case the customer requires more than one. The facility of providing an instant stock balance simplifies the re-ordering of stock. The service operator's mini-television screen also indicates whether any items ordered are supplied with batteries. When the sale is confirmed a ticket is automatically produced from equipment in the stock room and a member of the stock room staff immediately picks the item from the stocking shelves and sends it to the despatch counter by conveyor belt. Depending on the age, or size of the showroom, other systems for stock verification are based on the Plessey lightpen system or a manual stock board.

The Catalogue

The catalogue is the major communication vehicle of this method of

retailing. The 1,800 - 2,000 lines available in the showrooms are illustrated in the catalogue in colour, fully described, and include the code number for ordering. In addition, the shopping procedure is described as well as the methods of payment, and emphasis is given to the money-back guarantee which enables the customer to return a purchase within fourteen days if it is not exactly suitable. (This guarantee is over and above the customer's statutory rights).

Double-pricing - the chief promotional tool of catalogue showroom selling - is also explained in the catalogue. Where a manufacturer has a recommended retail price (RRP) the lower Argos price is quoted alongside. In those instances where no RRP exists then Argos' suppliers are asked to supply a suggested national retail selling price which is based on the traditional retail margins of that product, and the retail price at which the product is generally being sold. Similarly, the lower Argos price is quoted against the comparative retail price.

The catalogue is published twice a year in February and August. The print run is more than two million copies an issue, of some 230-plus pages. It is distributed free to customers through the showrooms. That a new catalogue has become available is publicised by window display and by advertising in the national press.

The Showroom

The average size of a showroom is 10 - 12,000 sq. ft. which is divided in the ratio of 2:1 between stockroom and the selling area, providing a smaller public area than in traditional retailing. In the early showrooms very few products were placed on display; reliance was placed on the illustrations in the catalogue. However, it was soon discovered that many customers wanted to see the merchandise before deciding to buy. In addition, many people living near a showroom, as well as passers-by, visit the showroom on impulse and choose from the displays. As a consequence, all Argos showrooms now display

merchandise in their windows, and in glass cabinets, while large items are displayed on island sites. Up to 75 per cent of merchandise can now be viewed on display. (It is estimated that 10 per cent of purchases are made as a result of consulting displays.)

Originally, too, it was believed that showrooms could be sited off main shopping centres because shoppers would have selected their purchases before they visited the showroom. In view of the importance of passing trade, however, showrooms are now sited wherever possible in prime shopping sites alongside major multiples. Other important factors which determine showroom location are convenient parking facilities, and that shopping centres should serve catchment areas of more than 130,000 people.

Merchandise

The Argos catalogue offers a wide range of merchandise; textiles, including bedding; toys and cycles; electrical products; auto equipment; furniture, including garden and office; sports goods; hardware; cameras and photographic equipment; do-it-yourself equipment; jewellery and gifts.

Since the first catalogue in 1973 changes have taken place in the number and type of products stocked. Whereas initially 4,000 lines were stocked, these now number some 1,800 - 2,000, a reduction which has been facilitated by the introduction of two catalogues a year compared with the original annual catalogue.

The following are the main factors which determine the inclusion of a product in the catalogue: the rate at which it sells, and the gross profit generated; the amount of space that it occupies; whether it can be handled easily, e.g. white goods, see also below; whether sufficient supplies can be obtained to last the six months' life of the catalogue; whether it is a well-known manufacturer brand; and whether manufacturers are willing to supply.

After the first two years of operation the number of lines was revised drastically in four product groups, i.e. jewellery, audio equipment, photographic equipment, and white goods, e.g. refrigerators, freezers and washing machines.

With audio and photographic equipment experience had shown that at the higher price level of these products consumers preferred a specialist shop with trained and knowledgeable staff, and where demonstrations could be provided. With expensive jewellery, it was evident that consumers preferred to compare a selection of rings, and to purchase in more traditional surroundings! As a consequence, the firm reduced the number of lines stocked of these products, and traded down to a lower price range. This change in stock assortment has proved successful, e.g. jewellery and fancy goods now account for one-quarter of total sales turnover. However, once a study of the psychology of customers buying jewellery has been completed Argos may once more begin selling more expensive jewellery by separating this product from the remainder of the sales area, and providing service and carpeting. The basic difficulty of selling jewellery at reduced prices is that customers cannot easily judge the value of such lines.

In 1977 the decision was taken to withdraw white goods (washing machines, refrigerators, freezers) from the catalogue because sales were not reaching their anticipated levels on account of delivery and servicing problems. In 1980 a selection of white goods was once more introduced solely from Hotpoint, and with the delivery being made direct by the manufacturer, instead of via the showroom. Credit facilities were also re-introduced in 1980 on all purchases above £55. Other products which have been dropped from the product range include such products as rotovators which Argos customers regard as the province of the specialist retailer only.

At the same time as certain lines have been dropped from the catalogue for various reasons, other lines have been excluded because of

the refusal of certain manufacturers to supply a discount operation by claiming that they are entitled to do this under the Resale Prices Act because Argos would not be prepared to stock their full range, or that it would not be able to provide the necessary after-sales service. As a result, the company has been unable to obtain supplies of certain sports goods, audio lines and watches from certain firms, and have never been able to purchase well-known brands of cosmetics. On the other hand, although Argos sells Citizen, Omega, Seiko and Tissot watches supplies are obtained from indirect sources, and not direct from the manufacturers.

Promotional Policy

The main promotional expenditure is devoted to the catalogue, supplemented by advertising in the press to announce the opening of a new showroom, and the publication of a new catalogue.

Since the company is anxious that customers should be alerted as quickly as possible to the publication of the new catalogue, advertisements take two forms. First, illustrations of a number of products compare the recommended price with the lower Argos price. Secondly, combined with the announcement of a new cagalogue, the advertisements include vouchers of certain values, e.g. £3 off an item costing more than £45. Some of these vouchers are valid for the first six weeks of the catalogue; the remaining vouchers are valid for the following six weeks. These vouchers are therefore intended to encourage potential customers to visit their nearest showroom and obtain the new catalogue. Local press and radio are also used to announce the opening of a new showroom.

The major drawback of catalogue selling is its inflexibility. Prices must be decided three months before the catalogue is issued to allow for printing and binding. Then when the catalogue has appeared, competitors are in a position to adjust their own prices accordingly

whereas the catalogue prices are fixed for the next six months. (To some extent this drawback has been overcome by marking those products which have been reduced in price for a limited period, or constitute a special offer, with a red 'Star Value' badge in the showroom, and advising customers to look out for these products in the catalogue.)

However, under rapidly-changing market conditions, e.g. VAT increases, the drawback of inflexibility has been exacerbated still further. Since 1979, therefore, in order to demonstrate to competitors that Argos can respond quickly to changing conditions and reduce prices in order to stimulate volume, the firm has issued supplements during the life of a catalogue giving details of products which are available at reduced prices for a limited period.

Supplements are issued midway and towards the end of the life of the catalogue in the same way that a traditional retailer holds a sale at the end of the Summer and Winter seasons. Three million copies of these supplements are made available in the showrooms and sometimes publicised in the daily press. The first supplement in May 1979 was also designed as a market research exercise to discover the potential popularity of electronic toys before the decision was taken to include them in the Autumn Catalogue. An additional supplement at Christmas 1979 substantially reduced prices of 130 out of 250 toy lines which were selling slowly following the ITV strike that autumn. The mini-catalogue issued in June 1980 had two distinctive features: almost two million copies were delivered to homes in the neighbourhood of Argos showrooms, and a further 300,000 were available at the showrooms; unlike previous supplements which have reduced prices for a limited period the merchandise will be sold cheaply until stocks are cleared.

Pricing Policy and Competition

The practice of discounting from the manufacturer's recommended price has been the major factor in the rapid expansion of Argos. By

1978, for instance, Retail Business (June 1979, No.256, 23) estimated that discount houses, principally Argos and Comet, held almost 20 per cent share of the trade in electrical appliances. Although it is not always easy to define a market, and some product fields Argos may only sell two or three lines, nevertheless in electrical appliances the firm has achieved a relatively high penetration in many products, e.g. electric knives, 13 per cent; food mixers 13 per cent; deep fat fryers 12.0 per cent; coffee makers 11.0 per cent; slow cookers 10.0 per cent.

The success of Argos and other discount firms naturally provoked a price response from their major competitors, multiple electrical appliance retailers, and this has led to a general lowering of retail margins. In the Price Commission's Report (1976, No.18, 10) the gross margins on electrical appliances in different types of retail outlets were

TABLE 1 Gross Margins on Domestic Electrical Appliances, 1975

	Small Appliances	Large Appliances
	%	%
Mail order houses	36.4	32.0
Electricity Boards	28.8	26.9
Multiple electrical retailers	24.4	21.7
Independent electrical retailers		
retail margins	24.0	19.8
wholesale margins	15.0	11.1
Department stores	19.4	14.8
Retail co-operatives	21.1	16.8
Discount houses and catalogue showrooms	18.2	15.4

Source: Price Commission

As a result of the increase in price competition, Retail Business (1979, 256, 23) estimated that by 1979 the gross margins of multiple electrical retailers had declined to the level of those of department and discount stores. The expansion of sales through Argos and other discount stores has been mainly at the expense of independent electrical retailers whose market share has consequently been eroded.

Discounting from the manufacturer's recommended price has been instrumental in expanding Argos sales of domestic electrical appliances. It has probably proved an even more valuable marketing technique in making consumers aware of the introduction of price competition in product fields where it had previously been very weak or absent, e.g. toys, some sports equipment, watches. The comparison with a recommended price has provided an effective and shorthand way of publicising price reductions, and stimulating traditional retailers to respond to this competition more quickly than they might otherwise have done.

PART 3

A COMPARISON OF ADVERTISING AND COMPETITION IN ECONOMIC THEORY WITH CASE HISTORIES OF THE OPERATION OF FIRMS IN THE MARKET-PLACE AND PUBLIC POLICY

Introduction

In Part 1 the literature in economic theory concerned with advertising and competition (theory of value, concept of consumer sovereignty, theory of the firm, and the theories and empirical studies on the effects of advertising and competition) was outlined and discussed, together with the literature of critics of the theory of the firm.

In Part 3 the major findings of conventional theory on advertising and competition are compared with examples from the Case Histories (CH) in Part 2 of the operation of advertising and competition in the market-place, and the findings of the empirical research also outlined in Part 2. In addition, examples will be included from the publications of official bodies, notably the Monopolies and Mergers Commission (MMC), Price Commission (PC), and Office of Fair Trading (OFT) to illustrate the attitude of public policy towards advertising and competition.

The following major aspects of advertising and competition will be considered:

I The effect of advertising in practice on
   (a) barriers to entry and price;
   (b) product differentiation, and brand loyalty;
   (c) information;
   (d) retailers' brands and competition.

II Competition under Oligopoly
   (a) oligopoly and prices;
   (b) non-price competition and oligopoly.

With regard to the Case Histories in Part 2, it is not suggested that this very small selection represents a balanced cross-section of products and services. Nevertheless, they do include examples of the

main forms of competition prevalent in industry ranging from a statutory monopoly (British Rail), and a duopoly (Persil Automatic) to oligopoly (Macleans Toothpaste, Batchelors Quick Custard, Jif Household Cleaner), and monopolistic competition (Mr. Kipling Cakes, and Argos Distributors). Some of these case histories include product areas where branding, advertising[1] and product differentiation are most prevalent, i.e. they are widely distributed convenience goods which consumers purchase at frequent intervals, e.g. once a fortnight. Another case history described a product (Superfry) typical of many others, which after being carefully researched and rigorously tested at every stage of its development, failed to get established in the market place (CH 4).

Furthermore, despite their limited number the case histories include many of the factors and conditions in the market which affect competition, the type and amount of advertising and other promotional expenditure employed by firms, and the different forms of competition besides price which help firms to compete, e.g.

- the characteristics of a product such as short shelf life (Mr. Kipling Cakes); joint demand (Persil Automatic, Jif; spare capacity (Golden Rail); low cost limited service (Argos Catalogue Discount Showrooms) determine the proportions in which different sales promotions are combined.

- the structure of retailing (intense competitive pressures from large-scale retailers as buyers and as suppliers of DOBs) affects pricing policies (Macleans Toothpaste), product policy (Mr. Kipling Cakes), types of promotions (Jif), and exerts influence over the decision to enter a market (Batchelors Quick Custard).

- the changing habits, tastes and life-styles of consumers reduce the demand for some products, and provide opportunities for introducing

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1. Packaged food, drink, household stores, toiletries and cosmetics comprised approximately half of manufacturers' consumer advertising in the 1970s.

new lines (Persil Automatic, Jif, Batchelors Quick Custard), alter the competitive environment and encourage the entry of new firms into a market;

- changing market conditions, e.g. the shift in the balance of power between manufacturers and retailers determine the price and promotional policies of firms, e.g. Temporary Price reductions, trade discounts, competitions (Macleans Toothpaste, Jif).

- the threat of potential entry by other firms influences the timing of entry into a market (Jif, Persil Automatic) even when there is uncertainty regarding the potential size, and rate of development of that market;

- the specific functions performed by non-price competition (free rail tickets, competitions, samples) which help firms to compete more effectively (Macleans Toothpaste, Jif, Persil Automatic);

- the difficulty of delineating a market (Jif, Mr. Kipling Cakes, Batchelors Instant Custard, Golden Rail) which widens automatically the area of competition and thereby the number of competing firms;

- rival innovations which stem from a combination of technical developments and the changed social and economic requirements of consumers (Persil Automatic, Golden Rail, Jif, Quick Custard, Argos Distributors) and which contribute significantly to competition between firms.

I The Effect of Advertising in Practice

(a) Barriers to Entry and Prices

Economic theory maintains that advertising is at least as important as technology as a barrier to entry. Advertising is then considered as an additional and unnecessary factor in deterring entry, re-inforcing concentration, and enabling firms to set high prices and reap high rewards without fear of the competitive effects. (Part 1, Bain, Cave).

Advertising may therefore curtail competition by putting up the cost of entry, and limit price competition by making demand curves more inelastic and lowering cross-elasticities of demand as a result.

Macleans Toothpaste (CH 1) is a leading brand in a typical oligopolistic industry. Four manufacturers in 1978 were responsible for 88 per cent of turnover. Whereas in 1941 three manufacturers were responsible for 43 per cent of the market by 1973 their share had risen to 88 per cent. For more than 30 years no new firm entered this market on a large scale. Advertising expenditure is high: 12 per cent of sales, although this proportion has declined from 18 per cent over five years, from 1973-77.

As toothpaste is technically easy to manufacture, complex technology is unimportant as a barrier to entry. How far has advertising been effective in deterring newcomers, and in contributing towards increased concentration? Several characteristics of the toothpaste market impinge on this question.

Although the market appears to have remained stable and static over several decades, many changes have occurred within it. The share of the market held by each of the three major firms has changed radically; new brands have been introduced, some of which have been short-lived. (CH 1, Chart on Long-Term Brand Shares). High advertising expenditure has apparently been ineffective in securing either stable brand or market shares. Furthermore, although only one major competitor, Procter & Gamble, has entered the mass toothpaste market, firms (large and small) have experienced little difficulty in entering the specialised sectors of this market, and existing successfully and profitably alongside the three/four giants.

A further feature of this market has been that despite heavy and consistent advertising by the major firms until comparatively recently consumers have shown less concern for brushing their teeth with toothpaste than consumers in other countries.

An important characteristic of this market has been the active and continuous commitment to research and development shown by the major firms. This has resulted in the incorporation of small improvements to existing products, and/or marketing of new brands. As a consequence of the high expenditure on R & D, and intensive advertising to publicise product improvements, little scope has existed for a potential competitor to find a niche in this market.

The determined search by existing toothpaste firms for continual improvements and variants to their brands, however minor, has been one factor in deterring newcomers. Perhaps more important has been the knowledge that unless a would-be entrant could introduce a major innovation that could not be easily copied, it would be difficult to get a new brand established before it was quickly imitated by competitors. This was the experience of Procter & Gamble. When this firm introduced Crest fluoride toothpaste in 1975 it had two advantages over its rivals. First, the introduction of the brand coincided with a general awareness by the public of the beneficial effects of fluoride in preventing tooth decay, whereas in the 1960s when established firms introduced a similar toothpaste demand was so small that the brands were subsequently withdrawn. Secondly, the brand had received the endorsement of the dental profession, and this proved an important factor in commending it to consumers.

However, both these advantages eroded rapidly as competitors like Macleans responded to the new competition with the introduction of brands of fluoride toothpaste which were also endorsed by the dental profession. This retaliation was accompanied by heavy advertising, price cutting and trade deals. This was particularly fierce because the brand leader feared that the experience of the American market where Procter & Gamble had replaced it as the brand leader might be repeated in this country. Although, therefore, Crest's share of the market had reached 9/10 per cent by 1979, this had been achieved at a high cost because of the immediate response of its competitors.

Three major reasons would seem to account for the high level of concentration in the toothpaste market. First, the R & D programmes of the established manufacturers have enabled them to introduce new brands, as well as continual improvements and variants to established brands, and this has forestalled the entry of competitors. Secondly, to date there has been the absence of a major innovation which could not be imitated easily. Thirdly, in a market which is now fairly static potential newcomers are aware that they will need to attract share of trade away from established firms, and that market share will not be relinquished readily.

Similarly, the level of advertising expenditure on toothpaste is attributable to several factors: first, there has been the need to make product improvements and variations known to consumers as they were introduced. Secondly, because consumers have some twenty-five opportunities annually to choose toothpaste, and the unit price is low, they have frequent opportunities to switch brands, and therefore frequent reminders of the reputation of the brand are necessary. Thirdly, toothpaste is a low interest product; this characteristic requires a minimum threshold of advertising expenditure on television to maintain the position of a mass market brand (see p. 83 for the experience of Aquafresh where newspaper advertising proved ineffective.) Moreover, advertising has been deployed to maximise sales in order to sustain economies of scale. Finally, the market is dominated by oligopolistic competition between a small number of firms none of which has been prepared to risk losing sales of one of its major products that might be recovered only by larger expenditure.

Although no one toothpaste firm has been prepared alone to reduce advertising expenditure as a percentage of turnover, such a reduction has occurred through changing market conditions, i.e. sales through supermarkets have replaced, to a large extent, sales through the traditional channel of distribution, the chemist. This change in the

pattern of distribution outlets, the growing concentration of food retailing among a few large-scale firms, and the intense competition between food retailers has led them to exert pressure for improved terms and trade discounts which has resulted in lower prices. Toothpaste manufacturers have also competed for special retail displays and participation in retailer promotions by the widespread use of Temporary Price Reductions and Price Marked packs which again has led to reduced prices. As a result, reduced expenditure on advertising has been transferred increasingly to expenditure on Temporary Price Reductions, trade discounts, and other promotions in the total promotional budget.

In 1978 the Price Commission (PC) Report on Toothpaste (HC 125) was prepared, perhaps reluctantly, to accept the high level of toothpaste advertising because it had not deterred the entry of Procter & Gamble in 1975; the dental profession had commended the 'therapeutic' advertising as being more likely to persuade consumers to brush their teeth than informative booklets on dental care issued by the dental profession or health councils; through changing retail structure advertising expenditure as a percentage of turnover, had steadily declined during the 1970s and had been replaced by at least intermittent price competition; toothpaste prices had risen less quickly than the general rate of inflation between 1974-78.

If, however, the PC had been considering the situation several years earlier when these marketing factors were absent, it would perhaps have condemned toothpaste advertising as a barrier to entry and the cause of high prices, as it had concluded in its Reports on sanitary protection products.

In (HC 436, 1978) the Commission concluded:

> 'Consumers in the sanitary protection market are particularly vulnerable to a lack of real competition. They have no choice but to buy the products. They purchase mainly for reasons other than price and the prices paid reflect high costs of advertising and promotions ... the main effects (of advertising) in this type of market are to apportion the static overall market between existing manufacturers a

> and to limit competition by establishing very high levels of expenditure as necessary to effect entry.' (para 5.10)

In its earlier Reports on this market (No.9, 1975, and Supplementary Report, No.26, 1977) it had attributed the manufacturers' practice of recommending retail prices (RRPs) as the cause of 'higher prices being charged ... in some shops than is necessary or desirable', and thereby inhibiting retailer competition.

However, the Commission seemed to have overlooked certain market and product characteristics of this market. The description of the market as 'static overall', for instance, failed to acknowledge that retail sales had increased between 1970-78 by 18 per cent. Furthermore, as with toothpaste high levels of advertising expenditure had not prevented active competition between the established firms which had led to changes in market shares, and the introduction of new products. More than one-third of the product by type had changed between 1970-78, and half the products in this market had not existed a few years earlier.

Moreover, despite the level of advertising expenditure, the Commission itself had pointed out that a new competitor

> '... has entered the market in recent years, another manufacturer has made an unsuccessful attempt to re-enter. A further manufacturer is currently test marketing'. (para 2.11)

Then a few months after the publication of the Report a newcomer entered the market (Johnson & Johnson) with £1 m. expenditure on promotion and without test marketing the new product.

The Commission had also criticised the lack of price competition in this market which it maintained resulted from RRPs, and recommended that these should either be abandoned on these products or alternatively reduced by 10 per cent. There was little analysis or data in the Report to suggest how the Commission had reached this conclusion, apart from their agreement with the view of one manufacturer who had abandoned RRPs '... the practice of recommending retail prices tends to put up shelf prices'. The Commission added: 'We share this view'. (34, 14).

Evidence in the Report revealed that price competition was relatively new on sanitary protection products: the gross margins of multiple firms had declined between 1972 and 1975. At the time of the Report the reason for the widespread adherence of most retailers to RRPs was that these products were still being sold predominantly through their traditional distribution outlet, the chemist. Supermarkets, who were primarily responsible for the limited price competition, stocked only a narrow range of fast-selling lines and price reductions were confined to these lines.

The recommendation to abandon RRPs was accepted voluntarily by most manufacturers of sanitary protection products. When, therefore, the Commission re-investigated this trade in 1977 to discover what had happened to retail prices, the incidence of RRPs was considerably lower. The Commission found that from 1975-77 the rise in retail prices had been at a lower rate than the rise in wholesale prices, and that average gross margins had consequently declined. Although the Commission, not surprisingly, concluded that its original proposals regarding RRPs had contributed to this changed market situation, it also recognised the effect of other market forces as well. Supermarkets and other open display retailers had shown little interest in stocking these products when they were packed in brown paper and served from under the counter. It had been changing social attitudes which had made it possible for such products to be promoted actively on open display in brightly-coloured packs and which had been primarily responsible for the increased willingness of supermarkets to stock and sell them at reduced prices. Unfortunately, at the very time when 'double pricing' (where the actual retail price is shown next to a higher reference price usually suggested or recommended by the manufacturer) would have been valuable, as has been the experience with other types of merchandise (see CH 8) to alert consumers that price competition was at last operating in the sanitary protection field, the Commission had

recommended the abolition or reduction in value of RRPs.

Furthermore, the Commission's stricture '... prices paid reflect high costs of advertising and promotions' (HC 436, para 5.10) seems to have failed to take into account that lack of retailer competition (a consequence of the characteristics of this product group until comparatively recently) had been a major factor affecting the level of prices.

In several Case Histories, advertising expenditure by firms well-established in a market has been insignificant compared with other market factors in inhibiting entry, e.g. (a) the cost and organisation required to achieve economic and widespread distribution (Mr. Kipling Cakes); (b) the difficulty of predicting the speed with which rivals would introduce a similar product, and DOBs would appear before the firm could achieve an adequate return on investment (Batchelors Quick Custard).

(a) Mr. Kipling Cakes. When Manor Bakeries contemplated entering the cake market with a brand of packaged cakes in the 1960s, it was very fragmented and with relatively little expenditure on advertising. The two best-known firms were a manufacturer, J. Lyons, which advertised, and a DOB (Marks & Spencer) with no advertising expenditure; the remaining market share was divided between a number of DOBs, regional brands, and cakes sold by bakers' shops.

The most formidable hurdles to entry were a series of distribution barriers, viz. the high cost of setting up a distribution system for a short shelf-life product, and operating it economically; the need to market a wide range of lines from the outset as a condition of being accepted by retailers; the knowledge that profits in this market would inevitably be squeezed by the lower prices of DOBs and the buying power of multiple food firms.

The chief product characteristic of packaged cakes - their short shelf life - means that distribution necessitates a carefully controlled

and expensive van selling system combined with an efficient stock rotation system. In order to achieve an economic drop it was desirable to sell to multiple retailers who owned the larger stores. The merchandise policy of such retailers was to stock a few brands of cakes only, but to offer a wide range of a particular brand. This requirement prevented the firm from building up a range slowly; it was compelled to begin with a minimum of twenty lines. In addition, the limited shelf space allocated in supermarkets to cakes indicated a speedy entry into this market before other competitors became well established. Finally, widespread distribution was essential because consumers appeared to show little brand loyalty towards cakes, and sales would therefore, to a large extent, depend on availability in the retail store.

2. When Batchelors decided to enter the custard market it was in long-term decline because of changing economic and social conditions, e.g. a growing percentage of working housewives, wider choice of sweets, change in taste towards lighter sweets.

The introduction of canned custard (by Heinz, Ambrosia, and later Birds) in the 1960s helped to expand the total market, and indicated that a demand existed for a more convenient form of custard. Quick Custard was more convenient still because it did not require a saucepan, its thickness could be varied, and it was lighter to carry home from the shop. Batchelors possessed two important attributes to enter the market: (1) an efficient handling and distribution organisation geared to the grocery trade; (2) in the short-run it had a technical advantage in the formulation of Quick Custard, and the company believed that if it could get established first in this market competitors would find it less easy to achieve distribution.

Advertising was unimportant as a barrier to entry. Although the manufacturers of canned custard advertised the leading brand of custard powder had practically ceased advertising as sales of the product

began to decline. The two major barriers were the intense competition in food manufacturing and retailing, plus the search for distinctive products by retailers, viz. the intense competition in food manufacturing caused by excess capacity and a consequent tendency for marginal costing leads (when products are technically simple to copy) to their speedy introduction by competitors followed by severe price discounting. On the other hand, the increasing homogeneity of supermarkets and the competitive pressures on distributive margins stimulates grocery multiples to seek out DOBs to sell at a lower price than the manufacturer's brand, but at a higher retail margin.

The examples from the case histories reveal that a variety of factors influence a firm's decision to enter a market. These include its financial resources, how far the product is likely to prove profitable, whether the product possesses a distinguishing feature or cost advantage which will appeal to consumers compared with established products, the extent to which the market is expanding, the degree to which the company possesses or can acquire easily the skills and expertise to operate in a market different from its own (Argos Distributors established a new method of retailing by utilising its existing strengths - expertise in producing catalogues, in acquiring retail property, in buying, and in operating retail establishments which stemmed from its position as the then associated company of the Green Shield Trading Stamp Company).

Finally, and in recent years an increasingly important factor in determining the decision to enter a market has been the ability to gain acceptance by retailers. This is the reason why in several Case Histories (Jif, Batchelors Quick Custard, Mr. Kipling Cakes) firms considered early entry into the market essential before retailers became reluctant to stock additional brands on their limited shelf-space. It also explains why some firms were prepared to shorten their test marketing period and risk having insufficient experience of their

product's performance in the market before launching the product nationally.

In view of the wide variety of factors which firms take into account when deciding whether to enter a market, undue significance would appear to be attributed to advertising expenditure as a barrier to entry in public policy publications, viz.

> '... a high level of advertising by existing sellers will often create a significant barrier against the entry of newcomers into the market. Consequently, it is possible that high advertising may not only raise unit costs but also contribute to excessive prices and profits.'
> (Parallel Pricing,[1] Monopolies Commission, Cmnd. 5330, July 1973, p.26)

> '... various forms of entry barrier have been uncovered by the Monopolies & Merger Commission which found that they were against the public interest ... A high level of expenditure on advertising or other sales promotion will also act to discourage new entrants.'
> (A Review of Monopolies & Merger Policy,[2] A Consultative Document, Cmnd. 7198, May 1978, 3.44)

> The high level of expenditure on advertising and promotion 'not only results in wasteful expenditure but also deters potential competitors who might otherwise provide a safeguard against excessive profits.'
> (Household Detergents,[3] Monopolies Commission, HC 105, 1966, p.39)

> Advertising and promotion 'help to create and maintain the kind of market in which it is possible ... to have substantial freedom to determine ... prices.'
> (Monopolies Commission, Breakfast Cereals, HC 2, 1973, 88)

Furthermore, these public policy pronouncements appear to overlook several important factors which reduce the extent to which firms can raise prices.

... 1. In an increasing number of markets firms face competition from the private brands of multiple retailers (e.g. in the case histories - Mr. Kipling Cakes, Persil Automatic, Macleans Toothpaste) which act as a restraining influence on price.

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1. All subsequent references will be to Cmnd. 5330.
2. All subsequent references will be to Cmnd. 7198.
3. All subsequent references will be to HC 105.

2. In many markets competition is far wider than that emanating from immediate rivals, because of the existence of substitutes or near substitutes. Jif (CH 2), for instance, competes against the whole range of household cleaners, including washing-up liquid. As part of the dessert and sweet market Batchelors Instant Custard (CH 6) is in competition with ice-cream, yoghurts, cheese and biscuits, fresh fruit, to name only a few items, besides competition from other manufacturers of instant custard, canned custard, and custard powder. Similarly, the sales of manufacturers of packaged branded cakes, such as Mr. Kipling, are influenced not only by the competition from one another and other types of cakes, e.g. fresh cream cakes, frozen cakes, bakers' cakes, but by the wide variety of products which can substitute for cakes.

3. In most markets the existing firms are aware that they face potential competition from other large firms who possess the capital and management expertise, besides the financial resources for investment and advertising should profits and/or prices become unduly high. There are other potential competitors who possess not only the above requirements to enter a market, but in addition possess the distribution expertise as well. Thus Procter & Gamble entered the toothpaste market when it felt the market situation was propitious. Batchelors, Brown & Poulson and DOBs, i.e. firms with distribution 'know how' and financial resources for capital investment, entered the custard market when new technical developments presented the appropriate opportunity.

Similarly, Golden Rail entered the package holiday market and offered additional competition to the existing rail package holiday operators, and to packaged holidays by coach in this country.

(b) Advertising as a Source of Product Differentiation and Brand Loyalty

That advertising is a device for making the market more imperfect through product differentiation and branding has been an integral part of the literature on advertising and competition over a period of many years. (Part 1 - Marshall, Pigou, Chase, Braithwaite, Chamberlin, Robinson, Lewis, Meade, Harbury, Comanor and Wilson.) A further distinction is made in the literature between informative and persuasive advertising. It is the latter in particular which is claimed to stimulate product differentiation, brand loyalty, the building up of reputations, and manipulates demand against the interests of consumers. It is the ability of advertising to differentiate a product and sustain brand loyalty which is then claimed to result in higher prices, monopoly profits and excess capacity.

Despite the longevity of these viewpoints neither the concept of product differentiation nor that of brand loyalty is ever defined clearly (Part 1, Robinson p.20 ; Comanor & Wilson p.20). There is also no attempt made in conventional theory to explain why if it were possible in practice to separate persuasive from informative advertising and rely entirely on the latter product differentiation would no longer occur. It is also not possible to discern whether the critics of product differentiation believe only one type of washing powder, for instance, should be available, or whether there should be different types of washing powder, but only one brand of each. There is the implication, however, that the differences between brands are superfluous, trivial or negligible, and therefore unnecessary.

The disapproval of product differentiation as a cause of imperfection in the market appears to stem from the model of perfect competition which requires that there are many sellers of the identical product or service, in identical circumstances, so that every buyer is indifferent between all the sellers and has no reason (other than price

advantage) to choose one rather than another. In practice, in all markets, sellers are not identical for reasons of geography, personality and, above all, the different and varying needs of different buyers. Product differentiation, therefore, occurs because consumers are not homogeneous and have different preferences, requirements and incomes which change over time. As a result, manufacturers find it worthwhile to provide variations in price, size, quality, packaging, convenience, flavours, durability, service, design, and comfort to meet the requirements of different groups of consumers. Similarly, retailers too cater for the varying needs and preferences of shoppers by competing not only on price, but also on the quality of their merchandise, the width and depth of their ranges, the degree of credit available, the extent of their delivery service, the amount of personal service they provide, their car parking facilities, the thickness of their carpet, and the provision of fitting rooms.

Product differentiation to the manufacturer and retailer is the attempt to distinguish their product or service from that of their competitors, typically by making changes in it that will identify it as different and preferable and that will appeal to sufficient customers to make it economically viable.

Moreover, product differentiation occurs automatically through changes in technology and tastes which take place over time. Argos Distributors (CH 8) introduced a new form of retailing because of a technical development, i.e. computers, legislation, i.e. Resale Prices Act 1964, and the increasing price awareness of consumers. Lever Bros. (CH 5) developed Persil Automatic to meet the needs of consumers who were acquiring a new type of washing machine which required a detergent with a formulation different from those currently on the market. Jif (CH 2) was developed as a replacement for traditional household cleaners which were proving unsuitable for the new kinds of surfaces, i.e. laminates and stainless steel being installed in homes during the 1950s.

Quick Custard (CH 6) was marketed in response to changing styles of living and tastes which had created a demand for more convenient sweets and desserts. Golden Rail - a packaged holiday combining rail travel, taxi and hotel - was a response by British Rail to the growth in car travel at the expense of the train, and the expansion of the packaged holiday trade, particularly abroad, during the 1950s and 1960s.

To some extent then product differentiation can be viewed as a competitive device. Established firms develop new products in order to meet changing demand, and to forestall the entry of competitors. Firms outside an industry are constantly looking for the opportunity to fill segments of the market which changes in technology or tastes have created, but which established firms may have overlooked. Product differentiation may thus provide a means of entry into a market (e.g. Argos Distributors, Quick Custard) which at the same time intensifies competitive pressures on existing firms by giving consumers additional choice.

Product differentiation also serves other purposes. To many consumers an established brand with which they have become familiar offers security (as Robertson (1958) explained: 'There is real spiritual comfort in buying a pack of cocoa rather than a shovelful of brown powder of uncertain origin'), and saves time in selecting and decision-making because its quality and performance are known.

Similarly, the time and cost of retailers and wholesalers can be reduced by a brand of a known standard and performance, and the rate of stockturn increased. When Persil Automatic (CH 5) was originally test marketed under the name Skip, retailers were reluctant to stock it because the potential market only justified a small expenditure on advertising. With limited distribution consumers experienced difficulty in finding and trying the product. When, however, it was subsequently test marketed under the name Persil Automatic, again with little expenditure on advertising, retailers readily stocked it because of its

association with a long-established brand name with a high reputation, and consumers were also willing to try a product with a brand name similar to one with which they were familiar.

With a retail discount firm such as Argos Distributors (CH 8, p.177) one of the chief criteria which determines a line's inclusion in the catalogue is that it should preferably be a well-known manufacturer brand, since customers can then more easily identify a price reduction, and such lines have a faster stockturn which leads to economies in operating costs.

The ease with which branded products can be identified by consumers serves two further purposes. It permits the consumer to avoid a product in the future should it have been found unsatisfactory or unsuitable (Part 2, CH 4). Branding also acts as an incentive for manufacturers to ensure constant quality of their products, since their long-term success depends upon satisfied customers making repeat purchases.

The fundamental aim of branding is to assist the manufacturer to build up a reputation for the value and performance of his product and/or name in order to secure a degree of consumer 'loyalty' which will enable the advantages of present-day technology to be achieved, i.e. economies of scale and lower unit costs.

'Loyalty' is composed of several elements including habit, inertia, and irrationality which may persist for a time when the original reasons for them have passed. It is a measure of the rate of turnover of customers. It is also a way of blunting price competition by substituting other sales incentives for price reductions which may be imitated too readily. The economies of 'loyalty' are twofold (Lewis, 1949): (a) the economies of quantity buying; (b) the economies of regularity. The importance of the economies of 'loyalty' have been accentuated through the need of many manufacturers to secure the potential economies of large-scale operation and lower unit costs. Firms cannot get an economic return from high capital investment unless sufficient customers

can be attracted with sufficient regularity. This means that shoppers must be able to identify a firm's products, and encouraged to make repeat purchases if they have been satisfied.

Brand loyalty is a more limited concept than the implication of conventional theory that advertising is capable of persuading consumers to purchase a product blindly and permanently. It is also more limited than the 'management of demand' thesis of Galbraith (Part 1, p. 42) who, unlike conventional theory, accepted the prevalence of oligopoly as inevitable but who propounded that it was the dominance of the large corporation in the modern economy which had eroded the sovereignty of the consumer. According to this proposition advertising is employed to shift the decision to purchase from the consumer to the firm because the market has become incompatible with the operation of the large corporation and the high financial risks associated with modern production techniques which has lengthened the period from the initiation of the product to its purchase by consumers. Consequently, large corporations manipulate markets, and hence consumers, through the employment of a wide variety of sales promotion techniques. The large firm ensures the disposal of whatever products it has decided to make.

In practice, advertising represents an effort to ensure more 'loyalty' than might otherwise exist in a market situation where producers are vulnerable to the competitive inducements of rivals, and the widening of the number of alternative choices available to consumers. Furthermore, although advertising may successfully stimulate the initial purchase of a product, it is less capable of encouraging the consumer to make a repeat purchase if the first has proved unsatisfactory (CH 4). The changes in market shares which take place over short periods in apparently stable markets (CH 1), also testify that consumers continually switch and experiment with different brands. Nor can advertising overcome incorrect timing of the launch of a product, e.g. the introduction of fluoride toothpaste in the 1960s by three well-known firms was

unsuccessful, because at that time, consumers were uninterested in the properties of fluoride. Jif was originally introduced in the early 1960s when few people had acquired the new surfaces for which it was suitable; as a result it was soon withdrawn from the market.

In public policy pronouncements there appears little awareness that product differentiation is an attempt to meet the varying preferences of consumers. The MC (Cmnd. 5330, 1973) took the view that in oligopoly:

> 'Costs may be higher, firstly, because the factors that inhibit sellers from engaging in active price competition may encourage them to compete in other ways, for example in advertising or in minor product styling changes.' (p.26)

Then in the Consultative Document (Cmnd. 7198, 1978) a distinction is made between worthwhile and undesirable product differentiation:

> '... while the new and better products which are one of the objectives of innovation are usually desirable from the customers' point of view this will not always be the case: planned obsolescence and minor styling improvements can be wasteful and may even operate to discourage competition.' (para. 3.15)

Thus, combined with the view of conventional theory that product differentiation only consists of competing brands with negligible differences is the planned obsolescence theory that suggests that existing products are deliberately made out-of-date by the introduction of new models with minor and superfluous differences which add little or nothing to their intrinsic merits. In practice, it is not possible to make such an arbitrary judgement between different types of product differentiation because although changes in a product may be slight, they may be valued by some consumers. Improvements in products are constantly being made possible by the development of new materials, new technology, and modifications and variations in products are made to meet changes in the living standards and styles of living of consumers. There is no means of predicting in advance which products with minor differences will appeal to consumers.

The desire by economic theory and by public policy statements to curtail product differentiation would seem to be an attempt to oblige

sellers to conform more closely to the theoretical model of perfect competition. But insofar as this would fail to cater for the unstandardised needs and requirements and preferences of consumers, it would be less efficient than a less 'perfect' market.

Public policy statements also appear to overlook the difficulty in practice of ensuring that consumer wants can be artificially contrived by advertising and other sales techniques. Mrs. Shirley Williams (then Secretary of State for Prices and Consumer Protection) when addressing the Annual Conference of the Advertising Association in May 1974, supported the Galbraith thesis:

> 'You create demands, in many cases artificially, by conjuring up worlds of fantasy'

and the EEC (1976) seemed to accept the Galbraith view as the basis of consumer behaviour:

> '... but can anyone refute Galbraith's assertion that in the relationship between producers and consumers the balance of power is often held by the producer, in that the consumer's needs are, in fact, "suggested" to him?' (2)

The basic weakness of the 'management of demand' theory stems from exaggerating the degree to which the technical requirements and planning implicit in large-scale production have been accompanied by an increase in the ability of producers to gain effective control over demand. In particular, many of the generalisations made about the relation of the modern industrial concern to the market are so extreme and sweeping as to render them invalid, and these generalisations are also too often based on a static economy.

In this hypothetical situation manufacturers are able conveniently, if unrealistically, to ignore the marketing policies of their rivals and competition from substitute products, retailer brands and overseas firms, although these are decisive factors in reducing the extent to which the large corporation can 'manage wants'. There is increasing evidence

from painstaking and detailed studies of economists[1] that the experience of industry both in the UK and the USA have been inconsistent with the Galbraithian assertions about the economy, and the theory is also contradicted by research findings on consumer behaviour and advertising (Part 2) particularly the high rate of product failures and the ease with which consumers switch brands.

(c) Advertising as a Means of Conveying Information

It has been generally conceded in conventional theory that although under perfect competition where buyers and sellers have perfect knowledge there is no place for advertising, nevertheless in the real world some selling techniques are necessary either because information is not perfect and/or indivisibilities in production techniques require the expansion of markets.

As a means of conveying information, however, advertising has been criticised on two counts. First, that expenditure on advertising is too high and, secondly, the information provided by advertisements is designed by the sellers of goods and is consequently biased. These criticisms have led to proposals (Part 1, pp.22-23) that independent information services could be an effective substitute for advertising expenditure because their costs are lower (whereas advertising in 1938 cost £68 m. the information supplied by advertising could be provided more cheaply, according to Kaldor, by an independent information service, i.e. around £14 m.), and that such bodies would disseminate widely

> '... information about the real qualities of different products (which) would increase the forces of the market mechanism to which the producers would have to submit'.
> (Meade, 1975, 49-50)

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1. Among others, Professor John Jewkes, Sir Frank McFadzean, Professor G.C. Allen, Professor Harold Demsetz, Professor R.M. Solow, Professor James Meade, e.g. G.C. Allen, Economic Fact and Fantasy, Institute of Economic Affairs, OP 14, 1969; F.S. McFadzean, Galbraith and the Planners, University of Strathclyde, 1968; Myron E. Sharpe, Galbraith and the Lower Economics, Macmillan, 1973.

These proposals take a limited view of the functions and purpose of advertising because they imply that its raison d'être should only be to convey information to the consumer about products already on the market, in the same way that the primary function of a consumer association is to offer comparative information on products and services. This viewpoint seems to be derived from conventional demand theory where consumer preferences are given and changes in them largely ignored. Moreover, conventional demand theory does not enquire into how consumers' preferences are formed in the first place, nor, because it is a static theory, does it consider changes in the composition of consumers in a market, e.g. the half-a-million newly-marrieds who set up house annually, and who are choosing many products for the first time.

Examples from the case histories show that advertising is used for a variety of purchases, apart from conveying information about existing products. In conjunction with other selling techniques, advertising is regarded as essential for the launching of a new product, e.g. Persil Automatic, Jif, Mr. Kipling Cakes, Golden Rail, Batchelors Quick Custard. In this way consumers are made aware as quickly as possible about the product, its properties and its purpose, e.g. that Persil Automatic had been specifically formulated for owners of front-loading washing machines. Not only did the advertising of Jif illustrate that a cream scourer did not damage new surfaces like traditional powder scourers, but it also tried to show sceptical housewives that a cream scourer could be as effective in cleaning dirty surfaces and as economical as traditional powder scourers by publicising the manufacturers who recommend Jif for the cleaning of their appliances.

Similarly, with Mr. Kipling Cakes (CH 7) advertising was used to try and dispel the widely-held belief that factory-baked cakes per se are of a lower quality than the home-made variety. With Golden Rail (CH 3) advertising made known to consumers that British Rail had diversified into a new activity, i.e. the packaged holiday market, and

by offering a combination of train and taxi travel, together with hotel accommodation, was endeavouring to recreate the convenience of the car.

With many products such as Macleans Toothpaste which are well established information may no longer be required; but consumers do need to be reminded of the brand's existence when they go shopping, particularly of a low cost item which is bought frequently and where consumers may be tempted to switch brands.

Advertising is also necessary for a product once it is established in order to announce improvements or variations designed to enlarge its market, e.g. in 1978 Golden Rail introduced self-catering holidays, and extended its holiday resorts to include the Channel Islands. Furthermore, in order to expand turnover such products as Persil Automatic and Jif must be advertised continuously to ensure that newcomers who enter the market through the acquisition of a new type of washing machine, or of new surfaces in the home are quickly made aware that products specifically designed for their use are available.

Many firms intensify their advertising at certain periods of the year, e.g. Jif at Spring Cleaning time, in order to encourage purchases at the time when consumption is likely to be highest. Similarly, Argos Distributors advertise twice-yearly to encourage potential shoppers to visit their nearest catalogue discount showroom and pick up a copy of the latest catalogue.

With other products like Mr. Kipling Cakes (CH 7) market research had revealed that consumers did not require information; it was the subjective factors about a cake - that it was considered a treat - that interested them.

In addition, almost all the case histories illustrate that increasingly under recent market conditions firms advertise not only to appeal to consumers, but to a large extent to stimulate retailers to stock their products and encourage them to provide favourable displays.

In this instance, advertising can be a means of achieving a faster stockturn and a higher distribution penetration.

Besides the varied nature of advertising which a consumer information service could hardly replicate and which would account for the wide discrepancy between the costs of such a service and advertising expenditure, the case histories clearly show advertising as only one of a number of selling techniques, e.g. temporary price reductions, samples, trade bonuses, special offers, intended to stimulate consumers to try and retry a product, and which are combined in particular proportions which reflect the characteristics of a product and its changing competitive position. The efficiency and importance of these selling techniques increases and diminishes according to how strongly manufacturers think they will appeal to consumers and retailers as a sales stimulant.

Over the past decade, the different factors in the 'marketing mix' have been changing with the result that advertising tends to represent a smaller proportion of sales promotion expenditure than formerly, e.g. Macleans Toothpaste, Persil Automatic.

Furthermore, there is the implicit assumption in the proposal that much advertising should be replaced by consumer information services that the consumer relies on advertising as the sole source of shopping information. In practice, the empirical research shows (Part 2, p.69) that shoppers rely on a variety of sources of information including that of retailers, the advice of neighbours and friends, articles in newspapers and magazines and previous experience. It is continuous shop talk among housewives which, to a large extent, helps to establish the reputation of a product, and to decide how far repeat sales will be made.

Since 1957 an independent consumer advice body has become well established in this country, the Consumers' Association (CA), which publishes comparative test reports on a wide range of products and services in its monthly journal Which?. During that time the member-

ship has reached around 700,000 (although readership is much higher in the region of 3-4 m.). Its members tend to be confined to a narrow range of occupations and incomes with the youthful and old under-represented. The difficulty CA has experienced in enlarging and broadening the representativeness of its membership appears to signify that many people find too much knowledge a dangerous thing, and the information sometimes more technical and detailed than they understand or want.

Furthermore, there are limitations in its testing procedures which were pointed out by the Molony Committee (Cmnd. 1781, 1962). Over the years, CA has made strenuous efforts to overcome the earlier criticisms of its test reports. For instance, to overcome the problem that sampling may not be representative, increasing emphasis is placed on user panels which simulate ordinary use as closely as possible, and the experience of members which are collated by means of questionnaires.

There are also inherent weaknesses in comparative test reports and it is not easy to remedy them, e.g. financial constraints, length of time required for testing, volatile market conditions which make it difficult to keep up-to-date with changes in prices.

More serious still, consumer testing procedures are conditioned largely by the selection of questions, and the conclusions drawn from testing depend on interpretation and judgement. If undue emphasis is given to price, for instance, compared with other sources of satisfaction such as convenience or the cost of maintenance, many shoppers may be misled. There is a tendency for the durability, price and reliability of products to be overvalued at the expense of styling, novelty, taste, security, individuality or brand name. If certain questions are omitted, not through negligence or oversight, but from a different assessment of a piece of research then the results of a report will not accord with the needs of consumers. Thus even seriously-intentioned consumer research with ostensibly objective test procedures has

limitations because all such testing inevitably involves subjective interpretations and value judgements. Such subjectivity has tended to be obscured because Which? no longer has a competitor with which it can be compared. Ever since Shopper's Guide ceased publication in 1963, Which? has been the sole source of comparative reports, and the consumer has had no independent alternative with which to compare it. Both Which? and Shopper's Guide, for instance, reported on electrical kettles and contradicted each other at some points. It was also possible to detect other points of disagreement running through various reports in the two journals, which is not surprising once the difficulty of devising satisfactory tests is appreciated.

The PC Report on Southalls (HC 436) condemned the type of advertising designed to build up brand loyalty compared with the benefit to the consumer of informative advertising:

> 'Advertising has been directed mainly towards establishing brand image; informative advertising which aids the consumer has played a minor role. This marketing strategy, based on strong brand loyalty, and reinforced by heavy advertising and promotional expenditure, adds to costs. We accept that in recent years advertising has included a growing element of information to consumers, but nonetheless, the overall marketing strategy continued to be designed to build up brand loyalty and thus it restricts competition.' (2.11)

Apart from the fundamental difficulty of defining 'informative' advertising in this particular market, the PC seemed to have overlooked that social attitudes towards sanitary protection products were not conducive to informative advertising until very recently. The advertising of these products, for instance, continues to be banned on television.

The Commission in fact acknowledges that

> 'Market research carried out by the industry has shown that consumers have not sought detailed information on products from advertisements, point of sale material or the outside of product packs. Accordingly detailed information is mainly conveyed in leaflets inside product packs... To supplement this consumers are actively encouraged through advertisements and pack leaflets, to write to manufacturers for advice ...' (2.17)

In other words, because of the characteristics of the product, information is conveyed in a more discreet manner than through advertisements, including the offer of trial by samples.

Furthermore, the PC overestimates the extent to which advertising has been able to raise costs, and restrict competition because brand mobility rather than brand loyalty has been a feature of this market, and prices have risen less than the rate of inflation.

(d) Retailers' Brands and Competition

As a means of reducing advertising and other selling costs Kaldor (p.25), like Lewis (p.20) maintained that the distributive system should be dominated by the retailer, and by retailer brands rather than those of manufacturers. The manufacturers would supply large retailers (chain stores, co-operative societies) who would tell them what consumers wanted, and thus drastically reduce or eliminate the expense of manufacturer advertising because, combined with only a modest advertising expenditure, the retailer achieves comparable publicity by using his shop windows and display shelves as his principal form of sales promotion. Furthermore, both Lewis and Kaldor envisaged that the pressure of retailer-domination would lead to a reduction in the variety of products. Finally, Lewis distinguished retailer advertising as 'desirable' because it was 'informative' compared with manufacturer advertising which was 'undesirable' because it was combative or persuasive.

These conclusions were based on an analysis of the success of certain large-scale retailers in promoting their own brands (notably Marks & Spencer) at a time when distributive trends appeared propitious for their widespread introduction in product fields.

Over the past quarter-of-a-century the 'countervailing power' of the retailer has arrived in many product fields. The distinguishing features of distribution during this period have been the increase in retailer concentration (see CHs 1, 2, 5, 6), the development of retailer brands (see Chs 4, 7), and the increasing intensity of competition between retailers. The growing concentration in retailing has made the orders of large-scale retailers, or their absence, important to many manufacturers. This factor, combined with excess capacity (particularly in food manufacturing) has meant that few manufacturers any longer refuse to pack private brands. In this period, too, some large-scale retailers have become household names, and have built up a reputation for quality and competitive prices with the result that shoppers are prepared to try DOBs without extensive advertising. The increasing homogeneity of retail outlets, particularly supermarkets, and the competitive pressures on distributive margins has stimulated many large-scale retailers to seek out DOBs. These are then sold more cheaply than the manufacturer's brand but with a higher retail margin. At the same time DOBs help to differentiate to some degree, a retailer from his rivals, and may contribute towards an increase in 'loyalty' among his customers - both factors which have become increasingly difficult to achieve in the present organisation of retail distribution.

Moreover, the acceptance of DOBs by the shopper has been aided by the favourable publicity they have received from consumer bodies such as the Consumers' Association,[1] and the Department of Prices & Consumer Protection,[2] although both these bodies have also acknowledged that DOBs are not necessarily of the same quality as the leading manufacturers' brands.

Nevertheless, the development of private brands has been by no means uniform across retail distribution. Wide variations exist in the degree of their penetration in different product groups, and even within a particular market. In groceries, for instance, DOBs vary from 50 per cent in cooking oil (CH 4), 28 per cent in washing-up liquid, and 5 per cent in breakfast cereals. Retailers also differ in their policy towards DOBs even within a particular product field. Of the four leading grocery multiples, Sainsbury and Tesco sell a higher proportion of DOBs compared with ASDA and Kwik-Save who rely predominantly on stocking manufacturer brands.

A variety of factors including product characteristics, size of market, and price differentials determine the extent to which DOBs are likely to be introduced in a particular product area. Newcomers into retailing, for instance, usually prefer to rely on the reputation and goodwill of established manufacturer brands in order to build up sales quickly. Similarly, manufacturer brands can be a valuable sales aid to the discount retailer (CH 8) because they enable consumers to

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1. 'Last year, we found that by buying own-brands ... you could save yourself 12p in the £ on groceries. This year, the overall saving fell to 8½p in the £. But, with some items, the saving was much more than this ... Our tests have shown that the quality of own-brands is often as good as branded versions (not always, though ...)', "Grocery Prices", Which?, October 1976, p.219.

2. A pilot survey into the Department's price monitoring scheme claimed that savings of up to 20p in the £ could be achieved ... by choosing the cheapest shop and using own-brands where these were the cheapest in price. Circular No.4/75 however, also recognised that retailers 'own brands' were not necesarily of precisely the same quality as the leading manufacturers' brands.

identify price reductions easily.

In technically complex products such as refrigerators and television sets, few retailers have ventured to introduce their own brands because they are unwilling to undertake the necessary after-sales service. Furthermore, with high-priced products purchased infrequently consumers often look for the security of a well-known name. Where widespread distribution is required to maximise sales, e.g. chocolate and confectionery, razor blades, DOBs have only been introduced on a small scale.

In a market with a relatively small turnover (CH 2) retailers show little interest in introducing DOBs. Similarly, if the price of the manufacturer's brand is very low (CH 6) then this factor inhibits the retailer from introducing DOBs with a worthwhile price differential which is an essential factor in expanding sales. On the other hand, DOBs are relatively easy to establish where branding cannot be a guarantee of a uniform product, e.g. fashion. In this area styling, colour, price, etc. are generally more important than a manufacturer's brand name.

With certain notable exceptions (e.g. CH 7), the outstanding characteristic of DOBs is that they are normally introduced once manufacturer brands have become well established in a particular product. For the most part, retailers seem to prefer to avoid the risk, financial resources, product and market research, and extensive sales promotion necessary for successful product innovation, and to concentrate instead on retail innovation by exploiting their skills and expertise in locating sites, merchandising, buying and pricing. Moreover, the large-scale retailer may well gain more benefit from using his increased bargaining power to acquire better terms, advertising allowances, and promotions from manufacturers rather than by introducing competing products. Although, therefore, when the opportunity occurs many retailers introduce own brands, they continue to rely predominantly on the sale of the leading manufacturer brands which have a high degree

of customer acceptance, and active promotional support.

There is some evidence, for instance, that although the degree of concentration in food retailing quickened during the 1970s, the proportion of turnover comprising DOBs declined as price competition intensified from 1977 onwards with the introduction of price-cutting schemes by the two leading multiples, i.e. Sainsbury and Tesco.[1] In both instances the share of the packaged grocery market held by these retailers increased to a greater extent through the growth of their sales of manufacturer brands rather than through DOBs. It seems possible that the price promotions of these firms have been primarily associated with manufacturer brands since it is easier for consumers to identify and compare a price reduction on a uniform product.

Where DOBs are prominent there has been a decline in the variety of products as envisaged in conventional theory. Whereas retailers may formerly have stocked four or five brands of a product, once a DOB is introduced they stock the two brand leaders and replace the remaining minor brands by their own brand. This development has stimulated manufacturers to introduce their product ahead of their competitors in order to ensure wide distribution. It has also made it increasingly difficult for a new brand to achieve distribution in an established product field.

When they are introduced selectively, DOBs are profitable to the retailers, good value to the shopper, and act as a warning to manufacturers that their marketing policies must take account of potential and actual competition from the brands of large-scale retailers. Although DOBs have become an additional competitive factor in many products there is little evidence to date that the success of limited categories of DOBs can be extended ipso facto to the whole field of retailing, or

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1. TCA/AGB Report, 1979

even uniformly across one product category such as food. As a consequence, the prediction that

> 'By the end of the century manufacturers' brands could be a rarity'[1]

seems unlikely to be realised, because it is based on the assumption of conventional theory that consumers know what they want, and already know the facts about products.

Retailer Advertising

The view that advertising and selling costs would be reduced if the distributive system were dominated by retailers has also not been borne out in practice. Since 1970 retail advertising has been the most rapid growth area of UK advertising expenditure. Within retail advertising, expenditure by non-food retailers has expanded at a more rapid rate than that of food retailers. This expansion of retail advertising from a very low level is directly related to the radical changes which have taken place in the organisation and structure of retail distribution, viz. increased consumer mobility and leisure have widened the geographical area of competition. The abolition of resale price maintenance has accentuated the trend towards the stocking of specialist merchandise by non-specialist retailers, and stimulated the emergence of new types of retail firms who offer varying combinations of service and price. The homogeneity of products and shops in some types of products has reduced the scope for some retailers to compete with one another on quality or individuality, so that competition has become more concentrated on range, convenience and price. The trend towards fewer but larger outlets has widened the range of products stocked by retailers. Not least, the relative growth in overhead costs has changed the cost structure of retailing and emphasised the

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1. Caspar Brook (then Director, Consumers' Association) in 'Fresh Deal for Shoppers', Observer, 11 February, 1962.

importance of operating at full capacity as a means of giving better value or improving profits, and has stimulated consumer promotions and advertising to encourage more shoppers to enter the shop and/or increase the value of their individual purchases. The bargaining power of large-scale retailers vis à vis manufacturers has resulted to some extent in a transfer of advertising expenditure from manufacturers to retailers through advertising allowances and additional discounts in return for special displays of a manufacturer's brand.

Moreover, the new types of retail outlets such as hypermarkets and discount stores (e.g. furniture, electrical appliances) advertise widely to make consumers aware of their ranges, low prices, and convenient parking facilities, especially when these are located away from traditional shopping centres. Previously, for instance, furniture advertising was confined largely to local advertising by retailers and national advertising by the branded manufacturers. Whereas manufacturers' advertising in 1976 amounted to £5.2 m. that of the three major retailers (Williams, MFI and Queensway) amounted in 1976 to £5.6 m. illustrating the change in emphasis from manufacturer to retailer advertising. (Fulop & March, 1979).

Finally, in response to the varied changes which have occurred in distribution, many established retailers have found it necessary to alter their operating methods (e.g. the establishment of voluntary groups in food retailing and to a lesser extent in other product areas), and/or extend their product ranges. Such retail firms undertake more advertising than formerly to alert shoppers to their adapted policies, to create a corporate image, to promote their own brands, and to illustrate their price competitiveness.

In view of the many factors which have influenced the expansion of retailer advertising, the supposition that a retailer-dominated distribution system should lead to lower advertising and selling costs

would seem to stem from a static concept of competition which cannot take into account the changes in demand and supply over time which affect how firms compete in the market.

II Competition Under Oligopoly

(a) Oligopoly and Prices

In the theory of the firm imperfect competition is generally regarded as less desirable, particularly the 'imperfection' brought about by oligopoly, i.e. the domination of an industry by a few firms.

The characteristic feature of oligopoly is the diminution of price competition (tacit or overt) among such firms as a direct result of their mutual interdependence due to the awareness by each firm (unlike the situation in perfect competition) that its pricing policies will affect demand in the market, and the policies of its competitors. Firms operating in such a market structure will therefore not respond to impersonal market forces as in perfect competition but personally and directly to their rivals. The inevitable outcome of oligopoly will be the emergence of price leadership, with a leading firm setting a price and other following, i.e. parallel prices. The second inherent feature of oligopoly which follows from interdependence is that firms will prefer to compete not by price but by means of advertising, sales promotion and product innovation as these are less aggressive forms of competition. Since an oligopolistic market structure may encourage both high advertising expenditure and parallel pricing behaviour the forces of competition will be effectively blunted and prices and/or profits will be higher than the competitive level.

Although it is generally agreed by economists that independent price changes under oligopoly are unlikely, particularly if demand is relatively inelastic and except where cost conditions have changed, there is less agreement whether an oligopolistic industry *per se* will have higher prices, higher profits and weak competition. Thus the distinction that is made between disciplined price leadership where rigid and sluggish prices are likely to prevail and barometric price leadership where prices - although more or less parallel - are more likely to resemble those which would emerge where there are many sellers.

The products in several of the Case Histories operate in oligopolistic markets, viz. Macleans Toothpaste, Birds Quick Custard, Jif, while Persil Automatic operates in a duopolistic market.

The toothpaste market, for instance, is characterised by oligopoly. Four firms were responsible for 85 per cent of turnover in 1977; sales promotion expenditure comprised 20 per cent of sales (of which advertising accounts for 12 per cent, and promotions for 7 per cent). Nevertheless, the industry is highly competitive, as is evidenced by the achievement of an 8 - 10 per cent share by Procter & Gamble following its entry into the market in 1975, and significant changes in the market share of the other companies and brands. (See Chart of Long-Term Brand Shares). Brands have been introduced and then withdrawn after four or five years. Macleans toothpaste, at one time the brand leader, has become the second brand. Boots and the Co-operative Societies have successful own brands, and one company, Stafford-Miller, has achieved significant growth in the sales of its specialised product Sensodyne. There is indirect price competition between manufacturers, largely in the form of temporary price reductions, intensified by vigorous retail competition as a result of which the 'real' price of toothpaste fell between 1973 and 1977 by 7 per cent at manufacturers' selling price and by rather more than this at retail prices. (PC Report, HC 125, 1978).

High advertising expenditure did not deter the entry of a new firm when circumstances seemed propitious; and there are other major pharmaceutical companies with the financial resources and distribution expertise to enter this market should the opportunity occur to introduce a product innovation. Three further factors have helped to keep prices and margins down. First, there has been a major change in the type of retail outlet through which toothpaste is sold; whereas toothpaste was formerly sold predominantly through chemist shops, it is now distributed largely through multiple retailers, and thirteen multiple organisations are responsible for 50 per cent of sales. As a result Macleans has

been compelled to compete with its rivals to get special displays and participation in retailer promotions. Secondly, the intensity of competition between retailers themselves has accentuated price competition. Both these factors have led to price cutting at the retail level. Finally, there has been the influence on price of a well-known DOB of a multiple chemist.

Toothpaste is a product category with no substitutes or near substitutes. Nevertheless, in this opigopolistic industry with high advertising expenditure, market conditions have reduced prices in real terms. (In another product category with no near substitutes, sanitary protection products (PC Report, HC 436, 1978) the manufacturers were reprimanded for their high advertising and sales promotion expenditure. However, in this market too there has been severe competition leading to the introduction of new products, new firms, variations in brand shares, and price rises less than the overall rate of inflation.)

Competition in many product markets is, of course, by no means confined to that emanating from a firm's closest rivals. In many product categories the existence of substitutes or near substitutes acts as a constraint on prices, in addition to the pressure of competitive factors in its immediate market, viz. Batchelors Quick Custard (CH 6) competes with the wide variety of products available for sweets and desserts. In addition, in the instant custard powder market experience has shown the need for a firm to optimise product quality and technology as quickly as possible, since any degree of success will almost automatically attract competition from other well-known food manufacturers who have the R & D facilities to develop a similar technical advance, an efficient distribution network to facilitate their distribution of a competitive product, the existence of excess capacity to encourage the supply of DOBs, and a competitive retail milieu which stimulates retailers to stock DOBs. In consequence, these specific marketing conditions have led to a competitive situation in which the manufacturers

have been devoting increased expenditure to trade discounts and other promotional activity which have resulted in the lowest prices that can be economically operated by manufacturers and retailers.[1]

Jif, a non-scratch cream scourer (CH 2) is part of the much larger household cleaning market which includes floor cleaners, powder scourers, bleaches, liquid scourers and washing-up liquids. There is considerable overlap in the use of these products by housewives because they do not regard them as serving a specific purpose. The cream scourer market effectively dates from 1975 when Jif and Agax Cream were introduced at approximately the same time. By 1979 the share of the market held by Jif was 52 per cent compared with the 20 per cent share of Ajax Cream. Basically, the policy of Jif the dominant brand (2.5:1) has been to invest in sampling, advertising, and distribution penetration and hold down margins in order to obtain an increased share of a still rapidly growing market. In order to counter the larger share of the market held by Jif, in 1980 Ajax Cream instituted a dramatic price reduction campaign by lowering their price some 8-10p below that of Jif. Since Jif was not prepared to lose part of their share of the market they responded straightaway and reduced their price by a similar amount by overprinting their price marked packs. It is likely that this reduced price level may lead to a much enlarged market, although in such a complex market where cream scourers not only compete with each other, but with powder scourers and many other household cleaners, elasticity of demand is difficult to predict.

Thus in this product category, Jif has to take into account the prices of products which housewives regard as acceptable substitutes; the major firms have not, to date, been equally successful in attaining

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1. The absence of an automatic correlation between oligopoly, advertising and higher prices in the food trade is illustrated in a study (King, 1978) which showed that the prices of the old-established 'heavily advertised' food brands - those on the market in 1964 and spending over £250,000 on advertising in 1977 - rose by 220 per cent between 1964 and 1978, compared with 309 per cent for food prices generally.)

market share and therefore do not have the same interest in accepting their present market shares; whereas the Retail Price Index between 1973-9 rose by 140 per cent, the price of cream scourers rose by 70 per cent.

Golden Rail is an example par excellence of a service which operates in a very price competitive area, because of the prevalence of substitutes and near substitutes, e.g. car, coach independent self-catering holidays, packaged coach tours, etc.

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Except in the short term the stable market environment which disciplined price leadership requires in order to persist seems unlikely. Over a period of time, changes in demand are brought about by changing social and economic conditions, and in supply by technology, the entry of new firms, and the introduction of retailer brands. In several Case Histories, for instance, intense price cutting has developed at the retail level (including 'bargin offers' by manufacturers, as well as retailers' price competition), there is the growing bargaining power of large-scale retailers, both as buyers and, in many instances, suppliers of their own brands, and with some products there is the threat of potential entry by other international companies. These market factors are sufficiently strong to override some of the main characteristics associated with disciplined price leadership, e.g. inelastic industry demand, static or only slow growing market, and similar products (these three characteristics all apply to toothpaste). The prices that emerge from oligopolistic industries are likely therefore to be influenced by market conditions.

Furthermore, disciplined price leadership would seem to imply a degree of homogeneity among the firms in an oligopolistic industry which in practice is unrealistic, e.g. firms are not equally efficient and

aggressive in production-distribution and marketing; they are not equally successful at innovation; their market shares do not expand at a uniform rate. Under such an unstable state of affairs, one or other firm will be compelled or stimulated to introduce price reductions, for instance, or a product variant, or a more vigorous marketing policy which affects the relative positions and profitability of all the competing firms. Where firms are constantly vying to improve their position in a market which can be brought about by a variety of means, it will be more difficult to sustain higher prices.

Finally, as examples from the Case Histories illustrate in many oligopolistic markets (e.g. Batchelors Instant Custard, Golden Rail, Jif, Mr. Kipling Cakes) firms are in competition with firms in a wide variety of other markets which provide substitutes or near substitutes on which consumers can spend their money.

Public policy pronouncements, however, have tended to ignore the effectiveness of the many factors in the market which help to constrain prices in an oligopolistic market structure, and particularly to overlook the time element which is most likely to undermine most efforts at disciplined price leadership. The MC's Report on Parallel Pricing which surveyed the effects of pricing policy under oligopoly concluded:

> 'However oligopolists choose to co-ordinate their behaviour, the result is likely to be a level of prices and profits higher than would prevail with a large number of sellers ...' (Cmnd. 5530, 1973, 13)

and to alleviate this situation recommended that Government control of prices and costs will often be the appropriate practical remedy (p.38).

Likewise in the MMC's Consultative Document (Cmnd. 7198,,1978) it was claimed that:

> '... the market power arising from high concentration may permit excess profits to be made. Also, market power can result in a misallocation of resources in the sense that the pattern of output does not reflect consumer preferences or changes therein.' (3.20)

There is little recognition in either of these pronouncements that an oligopolist per se cannot be insulated either from competition from the other large firms in its particular industry, or the threat of entry from large firms engaged in other industries who see opportunities in markets quite different from their own, the influence of distributors own brands, and changing consumer demand. There is, however, the implied assumption that has already been noted that brand loyalty can be enforced permanently by advertising, although there is little evidence from the Case Histories to support that view.

Finally, when the Price Commission was strengthened and given powers for new and more detailed investigation of individual prices, this policy was justified on the grounds that increased concentration, 'price leadership' and 'parallel pricing' with big companies taking the lead was increasing the danger of monopoly. (Under-Secretary of State for Prices and Consumer Protection, Trade and Industry, 18 March, 1977). However, there is no general agreement among economists whether concentration has been increasing in industry (Part 1, p. 27). Furthermore, no attempt is made to distinguish disciplined from barometric price leadership, nor to acknowledge that price leadership and parallel prices are often ways in which competition under oligopoly exerts its effect.

In a review of the work of the Price Commission (Three Banks Review, 1978) Lord Cockfield, its first chairman, 1973-77, postulated that there was a need for

> '... a permanent facility to protect the community at large in the field of pricing ... We suffer in this country from market domination, price leadership, parallel pricing, the lack of effective competition, unwillingness to compete on price.' (p.3)

Although oligopoly typifies most industries, this proposal overlooks the main factors which counter the ability of markets dominated by a handful of firms to control prices in the long run. To give one example: a

feature of present-day retail distribution is the widespread marketing of distributors' own brands by large-scale retailers. This development acts as a deterrent to excessive advertising, curtails monopoly tendencies over a growing range of merchandise, and exerts a beneficial influence on prices. The reputation of a retailer with a household name, and a prominent display in his branches, is sufficient for a shopper to try out a private brand without extensive advertising. Retailer brands, moreover, receive widespread publicity and favourable comment from public and private consumer bodies and the media.

The restricted view of competition and the assumption of a static economy implicit in the argument that firms in an oligopoly can raise prices with impunity would also appear responsible for the concept that retaliatory advertising and marketing costs can be wholly or largely added to the price the consumer is asked to pay as summed up in the MC's Report (Cmnd. 5530, 1973)

> '... But advertising which merely seeks to expand one seller's market share at the expense of other sellers' shares is likely to be partly self-cancelling and the overall unit cost of unchanging output is then likely to be higher than it would be with a smaller expenditure on advertising. Such an increase in unit costs would represent a waste of resources and would constitute a serious public interest issue.' (para 77)

The supposition that advertising expenditure merely persuades consumers to buy one brand rather than another and hence results in higher unit costs is based on several fallacies, e.g. that the demand for particular types of merchandise is saturated and cannot be expanded; that all firms are equally efficient or inefficient; that there is no scope for introducing cost-reducing methods, and that no firms can expand their turnover more than proportionately to compensate for the cost of the advertising. In particular, it fails to acknowledge that changes in market shares are the raison d'être of competition in practice, and that advertising and other types of promotions are deployed to increase market share which, if successful, can lead to better quality merchandise,

improved service or servicing, and act as a stimulus to firms with diminishing market shares.

(b) Non-price Competition and Oligopoly

In the theoretical model of perfect competition there is uniformity of products and services so that competition is concentrated on price which will reduce costs and profits to the minimum. In this model therefore the only form of competition analysed is price competition. Since all consumers are assumed to be perfectly informed of all competing offers, advertising and other forms of competitive sales promotion have no place. It may then be argued that the presence of other forms of competition is evidence of 'imperfect competition', and thereby inferior to price competition, viz.

> 'Under oligopoly competition no longer takes place by means of prices, but by means of packaging, samples, coupons, gifts and other attractions that might be considered secondary.' (Kaldor, Part 1, p. 24)

Although in a sense this premise is correct, it is invalid unless either perfect competition is a practicable alternative to imperfect competition or methods of non-price competition are no more than a poor substitute for price competition.

It is now generally accepted that oligopoly is the prevalent form of industrial structure. In recent years in the areas of manufacturing and retailing where competition has been most intense there has been an increase in both price and non-price competition which suggests that the latter may serve some specific functions in generating competitive activity.

Various types of non-price competition are employed in marketing products in many of the Case Histories. These include forms of indirect price competition such as temporary price reductions (TPRs) and multi-unit pricing, samples, competitions, 'free' offers, and rival innovations.

Temporary Price Reductions (TPRs)

TPRs are widely used by Persil Automatic, Jif, Bird's Quick Custard and Macleans Toothpaste. With toothpaste, for instance, TPRs are now more important than media advertising and other forms of promotion (CH 1).

Their increased use over the past decade has been due to three developments in retail distribution: (1) the enhanced bargaining power of retailers vis à vis manufacturers; (2) the increased price consciousness of consumers which has led the major retail firms to intensify their own promotional activities; and (3) the growth of distributors' own brands (DOBs).

1. The growth of large-scale retailing, and in particular of retailer concentration (50 per cent of Macleans Toothpaste sold through thirteen retailers, 50 per cent of Persil Automatic sold by four retail firms) has led manufacturers who sell through supermarkets to transfer some of their promotion through advertising to promotion through TPRs as a means of competing for special positions on the shelves of supermarkets, and gaining participation in retailers' promotional activity. In particular TPRs enable manufacturers to ensure that the discounts they make to retailers are actually passed through to consumers, whereas reducing manufacturers' list price would not necessarily have the same effect. With 'flash' offers the retailer can sell at no more than the recommended price less the 'money off' from the manufacturer. With price-marked packs a significant contribution to the price reduction is required from the retailer, the manufacturers' discount from list prices being perhaps only half the discount from recommended prices imposed on the retailer by the price marking. The retailer's permitted margin is correspondingly reduced. In this case both the manufacturer's discount and the retailer's discount are passed on. Moreover, the retailer often discounts the retail price even further. As a result, the consumer has benefitted from lower prices.

2. At a time of increased price consciousness of consumers, manufacturers have found that reduced price packs and 'flash' offers have proved more effective in achieving consumer trial and retrial of products and thus securing extra sales than other types of promotions such as advertising. First, they help to influence the less brand loyal consumer and perhaps persuade her to switch brands, and also to sustain the 'loyalty' of existing customers. Secondly, in the impersonal environment of self-service, they are a means of attracting the consumer at the point of sale in the supermarket when she is considering her purchases.

3. The intensification of retail competition has stimulated some manufacturers, e.g. Persil Automatic to use TPRs to meet the competition of low price DOBs. TPRs can encourage shoppers to sample the manufacturers' brands at a low price while at the same time maintaining the quality image of the manufacturer brand.

For manufacturers TPRs can be a flexible sales promotion device because the amount of the price reduction and the duration of the TPR can be varied, which makes them less easy for competitors to imitate. Furthermore, an intermittent price reduction may be more noticed by consumers than an overall, and consequently much smaller, price reduction.

The extent to which a manufacturer will find it worthwhile to use TPRs will depend, inter alia, on its market position. Since Macleans Toothpaste has a smaller share of the market than the brand leader it has by definition a smaller number of 'loyal' customers and consequently finds it necessary to promote more frequently and intensively than the major brand, e.g. in 1979 40 per cent of all packs on promotion were TPRs.

Persil Automatic is the brand leader (CH 5) in the growing market for low-suds washing powder. In order to gain as large a market share as possible at the expense of its major competitor, 100 per cent of its packs were carrying TPRs for a short period although the amount of the price reduction, and the length of the promotion varied which made it

more difficult for its rival to retaliate exactly.

Multi-unit Pricing

The selling technique of 'three for the price of two' is used by Macleans Toothpaste. It is an example of a promotion which reduces the unit cost of selling by raising the value of the average transaction and transferring part of the cost of holding stock to the customer. In addition, it is an example of an effort to retain the 'loyalty' of the customer for a longer period than when single units of the brand are sold. Other promotions are also designed to encourage shoppers to continue buying Macleans Toothpaste, e.g. 7p off this pack which also includes a coupon worth, say, 7p off the next purchase: when the consumer sends in three toothpaste packs to the manufacturer she receives 50p in cash.

Samples

With new products, (Jif, Persil Automatic) samples are regarded as an expensive but effective method of stimulating consumers' trial. By this means, it is anticipated that the brand will be accepted by consumers more quickly than would otherwise occur, and thereby expand sales and lower average costs of production. In addition, it is hoped that the issue of samples will enable a firm to gain a larger share of the market than its rivals. Persil Automatic, for instance, had been in the low suds washing powder for three years before the arrival of its major competitor, and samples were a means of quickly consolidating its position.

With both Jif and Persil Automatic, contracts have been negotiated with domestic equipment manufacturers to include samples in their products. As a result, this ensures that consumers are enabled to try the brands exactly at the time they purchase the equipment which will be used in conjunction with them. Since many consumers may be reluctant to buy a product with which they are unfamiliar, a sample allows them

to experiment with it without payment, and make a decision whether they wish to buy it in the future. As a result, samples would appear to be the most informative type of advertising which many manufacturers would like to issue if the size of their market justified the expense; it seems inappropriate therefore to describe samples as 'a secondary attraction'.

The aforementioned promotions are effective but costly. Manufacturers, therefore, intersperse them with lighter and less expensive promotions which may, nevertheless, be sufficient to focus trade interest on the product, achieve a display in the supermarket, and thus attract the consumer's attention. Competitions, for instance, are employed for this purpose by Persil Automatic. In addition, they have two further advantages: first, the prizes cost less than their cash equivalent. Secondly, the competitions may feature as prizes the products of manufacturers of washing machines, e.g. hi-fi equipment which helps to emphasise the link between the brand and front-loading washing machines. In a competition organised by Persil Automatic and Jif with a specific supermarket chain, Tesco, the effects were three-fold, viz. the retailer was prepared to give the products special displays, feature the products in advertising, and to match the manufacturers' price reduction during the period of the promotion.

Free Offers

In 1979-80 Lever Bros. and British Rail organised a joint promotion where, in return for four proofs of purchase from one or any combination of eight Lever Bros. brands including Persil Automatic and Jif, the consumer was entitled to a free rail ticket on the purchase of a rail ticket. For the company the promotion was designed to secure trial and a degree of 'loyalty' towards its brands. For Jif, the promotion stimulated retailers for the first time to give the brand a special display on the floor of supermarkets, a valuable selling position which a low volume

product finds it difficult to achieve. Another consequence of the promotion is that the retail trade is more prepared to accept Jif as an established brand which merits shelf space which is important when the policy of retailers is constantly to replace existing lines on their limited shelf space with new brands. An indirect and favourable effect of the promotion has been to enhance the brand's reputation with the sales force.

Rival Innovations

A continual flow of rival innovations reaches the market (of which only a small proportion are successful, e.g. CH 4) for one or a combination of factors: as a result of technical developments, in response to the changing requirements of consumers, to diversify out of a static or declining product area into an expanding market, to forestall the entry of a potential competitor into a product field and in order to compete more effectively against rivals.

Innovation can be an effective, if risky, competitive weapon because it may take longer to emulate than any other type of competitive activity, e.g. price reductions or promotions. This provides a firm with the opportunity to establish its product with the consumer and the trade before the arrival of second and subsequent brands. Under the existing organisation and structure of retailing, the first arrival in a product field is likely to find it easier to obtain adequate distribution than later competitors, and provided that customers have found the product satisfactory it will be more difficult to tempt them to change brands unless a later entrant can offer a superior product. Both these factors can give the first entrant into a product field a significant advantage over competitors.

The changing habits and needs of consumers provide a constant challenge and opportunity for innovation. A technical advance enabled Batchelor's Quick Custard (CH 6) to meet the changed preferences of the

consumer in the desserts market. Similarly, automation and legislation made it possible for Argos Distributors (CH 8) to introduce a new type of retail outlet in response to the changed attitudes of consumers towards price competition.

At the same time that firms innovate to meet the changing habits and needs of consumers, such innovations provide the means of replacing markets which have, or are about to decline, as the result of these changed consumer requirements. Thus in view of the continued slow decline in the volume of bread sales British Bakeries (CH 7) needed to generate new sources of turnover and profit, and decided to capitalise on its existing skills and advantages, particularly distribution facilities, by entering the packaged cake market. Two factors determined this decision: packaged cakes were the fastest expanding sector of the cake market, and grocers were becoming more important as distribution outlets. It was found essential to enter the market early and become established, in particular in multiple grocers, as large-scale food retailers only appeared willing to stock a handful of brands. Jif (CH 2) was introduced in response to changes in the type of surfaces which consumers were installing in their homes and for which the traditional types of scourers were unsuitable; Persil Automatic (CH 5) was introduced to meet the needs of a new type of washing machine. In each instance, however, these products replaced the firm's existing products (Vim, and Persil respectively), and were introduced before the market was economically viable as a means of pre-empting the entry of competitors. The entry of Persil Automatic into the low suds washing powder market three years ahead of its main rival has altered the share of the heavy duty washing powder market held in favour of Lever Bros.

The examples from the Case Histories illustrate that promotions perform several functions: encourage shoppers to try a product for the first time (samples); detach shoppers from their customary brand, in the hope that once they have been persuaded to try the particular brand

they will wish to purchase it again (TPRs); to boost turnover at certain period of the year (TPRs); to stimulate consumers to obtain the new season's catalogue; to achieve retail displays (multi-unit pricing, competitions); to maintain interest of retailers in the product ('free' offers); to encourage more 'loyal' customers when only marginal differences exist between products (gift or money for sending in three tops).

The basic aim of all forms of competition is to increase a firm's marked share, and they all lead to retaliation by competitors. Types of non-price competition, however, can be a more effective form of competition than price (or used in conjunction with price) because it is more difficult and slower to imitate, promotions are more varied and unpredictable, vary in their value to consumers and the skill and efficiency with which they are implemented by manufacturers and retailers. With non-price competition rivals cannot retaliate directly and exactly; during this intervening period the initiator gains an advantage in the market at the expense of potential imitators. Price cutting, on the other hand, requires no special skill to initiate or imitate and can take place immediately (see CH 2).

Non-price competition may also be preferred by manufacturers and retailers as a substitute for, or in addition to, price reductions because more value can be given as a 'gift' than as a price reduction; it may be more effective as a publicity weapon; a lower price may not be significant or dramatic enough to be noticed; and it may help to secure more consumer 'loyalty'. As a result, forms of non-price competition (including advertising) may be more effective in building sales than the equivalent outlay on a price reduction. In addition, it is possible that many of the effects, and possibly the benefits of the competitive process may be obtained through non-price competition.

Finally, the efficiency and importance of types of non-price competition increase and diminish according to how strongly manufacturers

think they will appeal to retailers and consumers as a sales stimulant, e.g. Case Histories illustrate the increasing importance of sales promotions compared with advertising.

The functions performed by different types of non-price competition which can increase competitive activity under varied and changing trading circumstances have been consistently disregarded in public policy pronouncements. Instead non-price competition continues to be regarded as inferior to price competition despite the fact that the latter cannot operate under oligopoly in the way that it does under perfect competition.

Thus the Prices and Incomes Board in its Report on Detergents, suggested that:

> 'The consumer would benefit if the area of competition on price could be increased at the expense, if need be, either of outlays on advertising and promotion or of profit.'
> (Cmnd. 2791, 1965, para 65)

The MC in its Report on Household Detergents did not seem aware that although one purpose of sales promotion is to secure trial of a product this does not mean that consumers will not then decide to purchase the product according to its merits.

> 'Lever Bros. and Procter & Gamble seem ... to assume that the housewife will be moved to prefer one brand to another less by superior washing powder than by the competing attractions of plastic daffodils as compared with whatever concomitant "gift" may be offered with another brand',

and that sales promotions

> '... distract the customer's attention from the merits or demerits of the detergent.' (HC 105, p.33)

In its Consultative Document the MMC concluded that non-price competition could raise prices because they are an additional cost:

> 'The various forms of non-price competition involve, to a greater or lesser extent, resource costs and these in turn can mean higher prices to the consumer. The creation and defence of a position of market dominance can also involve resource costs which do not necessarily yield a social gain. Thus the accretion of market power through greater concentration can result in a range of practices which are unique to markets characterised by dominant firms which are potentially against the public interest'.
> (Cmnd. 7198, 1978, 3.40)

There is no recognition in this statement that manufacturers add to their costs in various ways, e.g. advertising, bargain offers, because they will have found by trial and error that they will be more than compensated by the additional sales turnover that will be generated, e.g. plant may be utilised more fully, manufacturing unit costs may be reduced.

Associated with the view of non-price competition as a market imperfection which raises prices, there is the further argument that the widespread employment of such selling techniques as Temporary Price Reductions, free gifts and bargain offer claims confuses consumers. They are claimed to obscure the relationship between price and value unnecessarily, thereby complicating the comparison of competing offers, and this confusion prevents the most satisfactory choice of merchandise or retailer. (Consumer Council, Price Commission, Office of Fair Trading, EEC), for example, the Consumer Council (statement, 28 November 1963):

> '... <u>any practice is undesirable</u> which makes it more difficult for consumers to compare values'. (my italics)

The Price Commission Report (HC 657, 1978) on Lever Bros:

> '... we knew that consumer bodies believed that the scale and nature of the company's promotional activity tended to confuse the general consumer as to price, and to result in a higher price level than might otherwise prevail.' (1)

Furthermore, the issue of 'consumer confusion' has been included in legislation, i.e. under the Fair Trading Act 1973 (Section 17 (2)) where trade practices 'adversely affect the economic interests of consumers by misleading or confusing them' the Director General of Fair Trading can put forward proposals to prohibit or modify them.

Over the past decade two particular sales promotions which feature in the case histories - Recommended Retail Prices (RRPs) and its corollary 'double pricing',[1] and Temporary Price Reductions (TPRs) -

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1. This is the practice where the actual retail price is shown next to a higher reference price usually suggested or recommended by the manufacturers. When RRPs are used in double

have been the subject of considerable public controversy and official investigation on two main counts, viz. whether they hinder competition and whether they confuse or mislead consumers.

The MC (HC 100, 1969) investigated RRPs when they were still being generally observed in many trades. The Report found RRPs a complex subject matter with retailers and manufacturers divided over the extent to which the practice contributed towards inhibiting or stimulating price competition. Between 1975-78 the PC investigated the effect of RRPs and double pricing on several individual products including sanitary towels and tampons (No. 9, 1975) and Supplementary Report (No. 26, 1977); small electrical household appliances (No. 18 1976); and beds (HC 650, 1978), and undertook a wider factual study (No. 25, 1977) to supplement the MC's Report.

The Commission's fact-finding Report appeared anxious to emphasise that RRPs do not form a homogeneous subject that permits easy conclusions, but a combination of separate quite diverse phenomena. In particular, it noted that compared with the MC's findings in 1969 the number and type of products covered by RRPs had changed, which seemed to indicate that they were not a monolithic or static practice but a part of fluid and constantly changing market conditions. However, this study did not include research into consumer attitudes or behaviour.

All the Commission's Reports on individual products commented adversely against double pricing, although often for different reasons, (see for one example p.194 on sanitary protection products.) On small electrical household appliances the Commission recommended the abolition of RRPs because these products were rarely sold at the recommended price;

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1. (cont.) pricing they are claimed to confuse consumers in one of three ways: (1) where RRPs have been deliberately inflated by manufacturers to enable all retailers to 'cut' prices to some degree; (2) where the traditional mark-up used to calculate RRPs has become obsolete through changes in the structure of distribution; and (3) where variable RRPs have been introduced and calculated for a particular product at the request of the individual.

as a result RRP s were valueless as a guide to prices, encouraged impulse buying, confused the consumer and discouraged shopping around. Unfortunately, the Commission's recommendation for prohibition was weakened by its price survey which was based on twenty-five brand leaders estimated to account for some 30 per cent of sales in each product group. Since brand leaders are the lines most likely to be discounted it does not follow that secondary brands have been discounted to the same degree. Furthermore, consumer confusion was simply inferred in the Report; no attempt was made to ascertain whether consumer behaviour in the market-place would support the view that double pricing effectively halts the shopper from shopping around.

Similarly, in the Commission's Report on beds[1] it was recommended that

> 'double pricing at the point of sale and in media advertising should be prohibited except for prescribed "sales" periods of limited duration ... and ... RRPs for beds should be prohibited'. (para 13).

Despite this recommendation, the Report also revealed that consumers generally bought at the 'market price' which seemed to indicate that double pricing did not adversely affect consumers' behaviour. The Report also found that bed manufacturers were not earning excessive profits.

The distinguishing feature of this Report was a survey into consumer attitudes and buying behaviour which conflicted with that depicted in earlier Reports. This showed, not unexpectedly, that purchasers of beds relied on several sources of information to help them choose what to buy, and where to buy it, i.e. window shopping and looking around were the two most important sources, followed by press and television advertising. Two out of three purchasers looked at beds in three or more shops. Although price was important in determining the shopper's

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1. Examined under the Price Commission Act 1977 which enabled double pricing to be investigated and, if necessary, prohibited on a sectoral basis.

selection of a retail outlet, the survey showed it was by no means the only factor. Discounts, 'sales' and credit facilities, and knowing or trusting a particular shop were also important factors for patronising a particular outlet. Similarly, while price was important in the choice of a particular bed or mattress, aspects of quality and design were also significant elements in choice.

In 1975 the OFT had widened the debate on RRPs into a discussion on the whole area of bargain offer claims, including TPRs, and contrary to the PC's recommendation for the prohibition of RRP's suggested proposals to strengthen 'double pricing'. At the same time it made detailed proposals to reduce the apparent confusion caused by one type of TPR, 'flash offers'. It had not investigated whether such offers mislead consumers but placed reliance on the investigation carried out by the National Federation of Consumer Groups in 1974. On the other hand, it had not accepted the Federation's conclusion that 'flash offers' should be abolished. When, however, the OFT's proposals to reduce confusion were examined their weaknesses became apparent, and they were shelved.

In 1978 the OFT issued two recommendations for action on bargain offer claims to the Secretary of State for Prices and Consumer Protection. Whereas its original proposals on RRPs had been designed to strengthen double pricing as a competitive device by removing ambiguities and vagueness, the OFT now concluded that most RRPs were 'notional' and recommended that they should be prohibited when used to indicate that the seller's price is less than a recommended price. This proposal to ban double pricing had the effect of effectively prohibiting TPRs and flash offers since manufacturers could no longer relate them to RRPs! This contradicted the Consultative Document which had considered flash offers as a suitable form of short term price cutting, and had suggested how they could be made less confusing.

The OFT's recommendation to abolish double pricing seemed to be based on the assumption that 'their intention is to dissuade the consumer from further shopping around' (para 11), although no evidence was provided for this statement. Neither the OFT nor the PC seemed to take into account that double pricing or comparison pricing has been the marketing technique which has contributed towards the intensification of competition by acting as a 'bench mark' by providing retailers with an effective and shorthand way of publicising their price reductions; that they help to reveal the lack of competitiveness of other retailers; that they are useful for the little-known firm entering a noisy and crowded market-place; that they are particularly effective when price competition is being introduced into a product field; and that for some new types of retail outlets, such as catalogue discount selling (CH 8) they provide a more economical method than advertising for communicating price reductions to consumers.

Furthermore, the OFT 1978 recommendations failed to make clear whether the effective prohibition of TPRs and flash offers had been the unintended side-effect of proposing the abolition of RRPs, or whether the proposal arose from the difficulty previously experienced of making such offers less confusing. In either event, the OFT had failed to take into account that these offers provide price reductions over and above those given by retailers (CHs 1,2,5) which is beneficial to consumers, and that since they are associated with low value items bought at frequent intervals the element of confusion which they generate is likely to be small.

In 1978 the PC commissioned for its investigation into the price of soaps and detergents (HC 1) a consumer survey into the effect of TPRs and flash offers. The results indicated that consumers are mainly product and brand conscious, and seem to be satisfied that they have no difficulty in assessing value for money. Nor did the survey confirm a picture of widespread consumer confusion which the Commission attributed

to 'the frequency with which this type of product is purchased' (para 3.53). The PC Report on toothpaste (HC1 125, 1978) also confirmed that TPRs are unlikely to cause widespread consumer confusion, and that their price survey indicated that TPRs result in lower prices.

Despite these consumer and price surveys which were at variance with the earlier conclusions on RRPs and flash offers, a draft Order to implement the OFT's recommendations to prohibit, inter alia, price comparisons with RRPs and flash offers was published by the Department of Prices and Consumer Protection at the end of 1978. However, the eventual Price Marking (Bargain Offers) Order 1979 permitted double pricing on all products, apart from four (with the proviso that other products could be investigated on a sectoral basis), and permitted TPRs. (In 1979 a voluntary agreement was signed by the relevant trade associations that no more than 50 per cent annually of their members' packs would carry TPRs).

The conclusion of the early Reports of the PC and the proposals and recommendations of the OFT that consumers were confused by double pricing seemed to be based on two assumptions, viz. that price is almost the sole factor taken into account by shoppers when making purchasing decisions; double-pricing inhibits shopping around because the shopper believes she is getting a bargain.

These assumptions were not, however, confirmed by the consumer surveys commissioned later by the PC on detergents and beds respectively which showed that, for instance, with detergents the reasons for choosing a particular brand were more often to do with the quality of the powder than the price. Moreover, and not unexpectedly, of those buying for reasons of price, 20 per cent chose a distributor's own brand compared with only 6 per cent of all housewives who did so. With beds, the survey revealed that shoppers took a variety of factors into account, besides price, when selecting a retail outlet. In other words, with both these products double-pricing (including TPRs) was only one factor

among many others which affected the buying decision of the shopper, and seen in this context their ability to mislead consumers would appear to be considerably reduced.

Public policy appears to underestimate the knowledge possessed by the shopper which develops over time and which has become more perfect through social and economic developments, e.g. ownership of cars and telephones, widespread retail advertising, compound trading (the sale of specialist merchandise by non-specialist retailers), the consumer movement. As a result shoppers have better and speedier facilities for comparing prices than in the past.

The shift in emphasis on the issue of RRPs over a short period of time (1969-79) illustrates the difficulty of legislating under changing trading conditions without adversely affecting competition. Originally, RRPs were condemned as contrary to the interests of consumers because of the widespread adherence to them by manufacturers. They were often regarded as a substitute for resale price maintenance, and as a hindrance to price competition. More recently, the abolition of RRPs has been recommended because the difference between the actual and the recommended price has become so wide that consumers are misled and confused by them! In the intervening period, as the Price Commission's fact-finding study revealed, changes have taken place in the number and type of products covered by RRPs which, apart from the incentive of the Trade Descriptions Act to introduce them, has reflected the impact of new forms of retailing, and the varying rate at which price competition has emerged in different product fields.

CONCLUSIONS

The discrepancies which have emerged in Part 3 between the theory and practice of advertising and competition stem from several omissions and fallacies in the theory of the firm. The basic omission is the element of time, the importance of which economists like Marshall were well aware, and which in practice limits the ability of advertising to determine demand, and the ability of firms to raise prices and costs.

Furthermore, (1) premises such as advertising as a barrier to entry and as a creator of durable brand loyalty have been shown to have little validity in the market-place. (2) The neglect of the influence of the organisation and structure of retail distribution on advertising and competition has also resulted in a failure to recognise the increasing need for firms to attain the economies of 'loyalty' and widespread distribution in order to maximise sales and achieve economies of scale.

Finally, (3) the assumption that oligopolists should compete in the same manner as firms operating under the abstract model of perfect competition has led to the misleading conclusion that any other form of competition apart from price is an imperfection and thereby detrimental to consumer welfare, whereas practice shows that under conditions of oligopoly non-price competition can be an effective means of competition.

1. The conclusion, for instance, of conventional theory that advertising enables prices and/or profits to be higher than the competitive level is based on three main premises, viz. that advertising acts as a barrier to entry; that advertising can create automatic and durable brand loyalty; and that firms operate in a static market.

'Barriers to entry' is a more complex and varied concept in practice where advertising may be only one, and even an insignificant variable compared with all the other factors which influence a firm's decision to enter a market, e.g. financial resources, the complexity of

technology, the ease or difficulty of achieving distribution, the potential size of the market, whether existing firms have already reached economies of scale, whether the market is expanding or contracting. All these factors act as 'barriers to entry' to some degree. In fact, this is the mechanism whereby firms endeavour to build up their reputation and goodwill with a product which is well distributed, well advertised, and sold at the 'right' price as a means of protecting themselves as long as possible from competitors. Conversely, firms contemplating entering a market take it for granted that it consists of established competitors whose brands are well known and acceptable to consumers, and that this is a major obstacle that they will need to overcome. Both groups of firms would assume that this is the essence of competition!

The implicit assumption in theory that advertising can create automatic and durable brand loyalty is not borne out in practice where many products either fail to get established in the market-place, or remain in existence for only a short period. Although advertising may have been successful in stimulating the shopper to purchase a product in the first instance, unless she is willing to make a repeat purchase the brand will fail after a few months. With established brands, wide fluctuations occur in their market shares. This is due to the fact that only a proportion of purchasers are completely loyal to a particular brand. The remainder, which in many product groups, constitutes the major part of the market share of a brand, is made up of customers who vary their purchases between two or more brands of the same product, and who on occasion, decide to purchase from a different product group. The two major reasons for consumers behaving in this way is the desire for variety, and that one brand offers an intermittent price reduction or promotional offer. The latter will occur when in order to remain competitive the brands have become equivalent to the customer so that only the price or the promotion differentiates them.

Under these circumstances, a high proportion of advertising is devoted to encouraging those who already purchase the brand to do so more frequently, or in larger quantities. This means that advertising is often directed towards customers who are already familiar with a product, and who are able to compare the promises made in the advertisement against their own experience of the product.

The tacit assumption that advertising can create durable and automatic brand loyalty also implies a static market, since over time firms are vulnerable to the impact of competition from the introduction of new brands and products, and changing consumer habits, demands and tastes. These are all factors which cause brand shares to fluctuate and brands to be withdrawn from the market, and which impose severe limitations on the power of advertising.

Associated with the assumption that advertising can assure durable brand loyalty is the implicit - and sometimes explicit - supposition that consumers are gullible and passive acceptors of advertising and sales promotions. This fallacy arises through the tendency of theory, first, to isolate sales promotion from the many other sources of information, viz. retailers, the media, friends and relations, and consumer bodies, available to consumers and which, in practice, they take into account before deciding on a purchase; and, secondly, to take a static view of the economy which thereby ignores that consumers learn from experience and reject products in the future which have proved unsatisfactory, and underestimates the knowledge of the consumer which develops over time, and which has become more perfect because of certain economic and social developments, e.g. ownership of cars and telephones, retailer advertising, etc.

2. Conventional theory tends to overlook the effect of the organisation and structure of retail distribution on advertising and on types of sales promotions. Conventional theory considers advertising predominantly from the supplier's viewpoint, and seems to ignore that

advertising may be a beneficial source of information to consumers. Just as serious, it ignores the effect of advertising on retailers. Advertising and sales promotion are as essential in persuading the retailer to stock a product as in stimulating the consumer to buy it. While advertising may successfully create awareness of a product, and encourage the consumer to try it, this will be of little avail unless the potential purchaser can easily find it in her local shop. There is evidence that on many occasions consumers are prepared to take an alternative brand or substitute product if their preferred brand is unavailable. Many of the case histories confirm that a firm's success in achieving widespread distribution of its product has been an essential factor is obtaining a major market share. Not surprisingly, in the current competitive and cost conditions in distribution, retailers prefer to stock brands with a rapid turnover. Conversely in the competition for the limited shelf space in the store the retailer is least likely to eliminate the most popular selling brands. In practice, therefore, an important function of a manufacturer's advertising is designed to reassure retailers that a product will sell well. Likewise, the purpose of many manufacturers' promotions is to make it worthwhile for the store to display the product prominently.

The implied insistence in conventional theory that advertising and brand loyalty are synonymous has led it to overlook the need of manufacturers and retailers for 'loyalty' which has become more necessary under present-day conditions of production and distribution, but which many market developments have made it more difficult to achieve.

In retail distribution, for instance, impersonal methods of shopping, standardised merchandise, and the mobility of shoppers have diminished the ability of retailers to achieve the economies of 'loyalty'; at the same time expensive capital investment and high overheads have accentuated the need to attract maximum customer traffic. In their

efforts to operate stores at full capacity, lower operating costs by handling fast-selling merchandise, and differentiate themselves from their rivals, retailers have increased their advertising, their range of distributors' own brands, and the frequency of 'special offers' and promotions, with a further trend as competition has intensified towards exclusive promotions with a particular manufacturer.

Manufacturers have likewise been affected by recent retail developments, in particular by the increased concentration in retail distribution. On the other hand, the potential economies of large-scale production, and the cost savings which result from more intensive utilisation of expensive machinery can only be achieved if manufacturers can encourage sufficient customers to make regular and repeat purchases.

The growing power of a few large-scale retailers vis à vis manufacturers has led to the development of consumer promotions whose primary objective is to induce retailers to give a product a prominent display, and to provide a price reduction directly from the manufacturer to the consumer over the heads of retailers. Furthermore, the impersonal service of the supermarket and the superstore has shifted competition to the point of sale, and this is where the manufacturer is faced with the task of trying to gain the attention of the shopper, without the aid of a sales assistant. This has led to the expansion of promotions to encourage trial of a new product; stimulate repeat buyings; facilitate entry into an established product field; boost turnover at certain times of the year, and encourage shoppers to try out larger sizes. Other promotions such as temporary price reductions lessen substantially the price differential between the manufacturer brand and the distributor's own brand in order to stimulate trial by the price conscious and/or indifferent customer.

To some extent the expansion of promotions has been at the expense of advertising expenditure, although advertising is widely used to bring them to the notice of consumers. Moreover, in these examples of non-

price competition manufacturers support the retailer with improved terms and advertising allowances because they are keen to have their lines chosen in preference to their competitors, and the retailer usually matches the manufacturer's price reduction. Non-price competition, therefore, often takes place in conjunction with, and not in place of, price competition. Under current trading conditions manufacturers and retailers employ particular types of non-price competition because they can perform certain identifiable selling tasks more efficiently than other selling techniques including price. Sales promotions have increased over the past twenty years chiefly as a consequence of changes in the organisation and structure of retail distribution.

The efficiency and importance of different forms of sales promotions increases and diminishes according to how strongly manufacturers and retailers think they will appeal to consumers as a sales stimulant. Just as advertising expenditure in food retailing has risen over the past five years, trading stamps, for instance, have disappeared during the same period. Similarly, manufacturer expenditure on advertising has relatively declined in recent years and has been replaced by increasing expenditure on promotions.

Non-price competition is widespread under oligopoly because the interdependence of firms leads the oligopolist to consider how his rivals will react before changing its prices or output. Under these circumstances, the oligopolist usually prefers not to compete directly on price for fear of setting a downward price spiral in motion which will lead to a price war, squeeze profit margins, and be self-defeating. Instead, the oligopolist tends to compete by other means such as advertising and sales promotion to achieve increased sales turnover.

In conventional theory non-price competition is regarded as inferior to price competition because for the purpose of simplifying the analysis sales promotions including samples, indirect price

competition, free gifts, competitions, etc. are relegated to the category of ceteris paribus and regarded as evidence of imperfect competition and therefore as detrimental to consumer welfare. This error has led to the view that if these 'imperfections' could be eradicated then direct price competition would once more prevail.

Non-price competition is, however, inherent in the nature of oligopoly which has become the prevailing form of organisation in industry. Oligopolists tacitly refrain from direct price competition because of the ease and speed with which it can be followed by rivals, particularly when cost conditions in an industry are similar. (Occasional outbursts of aggressive price competition will tend to be confined to product innovations and major technical developments). On the other hand, firms vary in the calibre of their marketing, advertising and sales promotion expertise, and particularly in their ability to innovate. Not only are these forms of competition more flexible and unpredictable, and more difficult to emulate exactly, but it is less easy for rivals to retaliate effectively against a promotion or an advertising campaign since these do not have an identical appeal for retailers or consumers, and manufacturers vary in the efficiency and aggressiveness with which they implement them. Even more important, it takes time to retaliate and during this period the initiator gains an advantage at the expense of his competitors.

The conclusion of conventional theory that non-price competition adds to costs and raises prices is a misconception based on a static view of the market. If non-price competition helps to encourage consumer 'loyalty' to the retailer and to the brand, reduces costs in the shop and the factory, and innovation has a competitive value, then it may be an effective means of competition in increasing sales turnover and in keeping prices down. The argument that the cost of sales promotions must ipso facto be transferred to consumers in the form of higher prices is based on the supposition that all manufacturers/

retailers are equually efficient or inefficient, that there is no scope for introducing cost-reducing methods, and that no manufacturers/ retailers can expand their turnover more than proportionately to compensate for the cost of the sales promotion.

Since there are obvious practical limits on the degree to which the abstract theoretical assumptions of 'perfect competition' can be reproduced in modern industry, non-price competition which varies according to trading developments may be more applicable than direct price competition where oligopoly prevails. Legislation, therefore, which curbs or eliminates particular types of non-price competition without understanding its function in the market-place, or that it is likely to expand and then recede, and perhaps be replaced by other sales techniques under changing market conditions is likely to be detrimental to consumer welfare.

Finally, in Part 1 it was shown that the weaknesses and fallacies in the theory of the firm which make it inappropriate as a basis for competition policy have been demonstrated by amny eminent economists. Nevertheless, in my examination of public policy pronouncements in Part 3 it is evident that public policy is prediminantly based on the theory of the firm and the need to curb or eliminate imperfections in the market such as oligopoly, product differentiation, advertising, and non-price competition.

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