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Price Competition in 1955

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The biggest single slice out of the costs of distribution is taken by the retailer. In 1955, the American family will be paying a cover charge of some $90 billion for the privilege of enjoying its standard of living. That is 53 percent of an estimated total of $170 billion in retail sales next year. It represents a most conservative guess at the cost of distributing the goods and services our consuming public wants.

It is already clear that competition in 1955 will be most severe at the retail level, and it will take the form of an onslaught upon retail markups. It is already safe to predict, for example, that the largest single discount operation this year will be run by the automobile dealers of America.

The forces that come to a focus in their pressure upon retail markups arise from the activities of producers and the patterns of living of consumers.

Characteristics of Competition in 1955

Marketing is concerned directly with the realities of competition. To use a military analogy, marketing involves the over-all strategy of distribution, while merchandising, advertising, promotion, and selling comprise the tactics. The costs of distribution actually represent the pressure needed to maintain the high level of consumption. Our economy demands a constantly expanding capacity to produce.

Even the pattern of our employment shows this emphasis upon distribution. The great majority of all workers are employed in those sectors of our economy that are entirely outside of production. In fact, if we limit ourselves to the actual production and transportation of goods, this economy is like an inverted pyramid, with less than 30 per cent of the labor force producing all of the economic values.

The first reason for expecting heightened competition in 1955 comes out of the changes in the production sector of the economy. The rate of replacement of plant equipment has been going on at a steady and high level. Contrary to previous recessions, when capital expansion has always declined precipitously, the rate of expansion, the replacement of old with new and more efficient equipment, and the enlargement of our capacity to produce have been maintained in 1954 with only a minor decline from the high level of 1953. Thus, in 1955, the productive plant is going to be capable of producing more goods and services than ever in our history.

Increase in Size of Business Population

Another factor is the size of the business population itself. There are well over four million business enterprises in operation in the United States today, the highest number in our history. Of these, there are well above 2,750,000 wholesale, retail, and service establishments catering to the American family. In itself this is a pretty sound guarantee that in 1955 the squeeze on distributors' markups, widely experienced this year, will continue with some extra twists of the screw.

Many years ago I pointed out that the process that I have called "marketing arbitrage" tends to divert the fastest moving items from one channel of distribution to another with a traditionally lower markup requirement. This helps explain why newsstands sell beauty aids.

The United States Chamber of Commerce recently estimated that this year some $50 billion worth of goods is being sold at off-prices, only a portion of it through discount houses. At the same time, we see many types of distributors reaching out into neighboring fields for merchandise they have not carried before. This is particularly true of supermarkets, drugstores, auto accessory stores, and the discount houses themselves.

Somewhere between the process of “marketing arbitrage” and the drive to “discount” there is a massive pressure to reduce distributors’ markups. Since we do not anticipate either a higher level of income or a reduced volume of commodities and services, this points to a sharply higher rate of failure on the part of distributors, especially the moderate-sized stores with the higher fixed expenses, and increasing price competition between manufacturers.

The assault upon distributors’ mark-ups results, in the final analysis, from the producers’ drive for expanded markets. It is one answer to the fact that the consumer’s buying power is limited. The chief characteristic of the consumer’s attitude toward his standard of living is that he wants to improve it. Perhaps, for a tiny minority at the very top of the income heap, this may not be true. But for all the rest of the population this is a dominant drive. Yet, in 1953, 69 per cent of the families in the United States had a total family income of less than $5,000 a year. Thirty-seven per cent of all the families had a median net worth of $1,300, another 32 per cent had a median net worth of $3,500, but 31 per cent of all families were in debt, and had less than no net worth.

The Nature of Competition

Actually, there are three separate aspects from which competition should be viewed.

From the standpoint of the producer, anything that impedes the movement of goods or services from his factory to the consumer constitutes competition. On the other hand, to the consumer competition is simply the multiplicity of choices available to him. Whether and how he acts upon these choices depends upon the intensity of the wants that have been generated, upon the limitations of his buying and borrowing powers, and upon the customs, habits, and aspirations of his ethnic, social, or geographical group.

To the producer, competition is an irritant and a source of insecurity. Therefore, his drive is toward monopoly. Since every producer wants to remove the obstacles to the most profitable sale of the largest practical volume of his goods, his instinctive drive is to limit competition. The fact is that the essence of marketing strategy is to establish as many monopoly positions as possible. These may involve patents, trade-marks, style leaderships, exclusive arrangements of all kinds, the size of dominance of advertising and selling efforts, the extent to which the consumer’s emotional attitude towards his consumption can become the captive of the producer.

Strong Influence of Television

Probably the most powerful weapon of the dominant producers lies in their use of television. To a greater degree than ever before a relative handful of products will share a monopoly of most of the leisure time of the American family. We will have over 30 million television households next year. And television achieves three results to an extent no other advertising medium has ever approached. First, it creates a captive audience. Second, it submits that audience to the most intensive indoctrination. Third, it operates on the entire family.

Obviously, the limited number of sponsors and the high cost of television combine to produce a growing threat to the 25,000 or so nationally advertised brands and the 200,000 or more private brands, store brands, regional brands, which cannot or do not aspire to television.

But what the retailer should see is that all of this pressure upon the consumer not only gives him innumerable choices, but actually strengthens his ability to reject the overwhelming proportion of the items proffered by our competitive economy. The total result of the pressure is to change the pattern of living. The persuasive techniques for instilling new wants into the consumer may result, in buying the new Hi-Fi set, or the new refrigerator, or the new car, and result also in displacing or postponing the purchase of clothes, or furniture, or vacation trips.

This leads to the third aspect of competition. It lies in the competition for the consumer's attention, for his confidence, for his response to new wants.

The Real Meaning of Consumer Demand

Our enormously productive economy demands that we make consumption our way of life, that we convert the buying and use of goods into rituals, that we seek our spiritual satisfactions, our ego satisfactions, in consumption. The measure of social status, of social acceptance, of prestige, is now to be found in our consumptive patterns. The very meaning and significance of our lives today expressed in consumptive terms. The greater the pressures upon the individual to conform to safe and accepted social standards, the more does he tend to express his aspirations and his individuality in terms of what he wears, drives, eats- his home, his car, his pattern of food serving, his hobbies.

These commodities and services must be offered to the consumer with a special urgency. We require not only "forced draft" consumption, but "expensive" consumption as well. We need things consumed, burned up, worn out, replaced, and discarded at an ever increasing pace. We need to have people eat, drink, dress, ride, live, with ever more complicated and, therefore, constantly more expensive consumption. The home power tools and the whole "do-it-yourself" movement are excellent examples of "expensive" consumption.

What becomes clear is that from the larger viewpoint of our economy, the total effect of all the advertising and promotion and selling is to create and maintain the multiplicity and intensity of wants that are the spur to the standard of living in the United States. A specific advertising and promotional campaign, for a particular product at a particular time, has no automatic guarantee of success, yet it may contribute to the general pressure by which wants are stimulated and maintained. Thus its very failure may serve to fertilize this soil, as does so much else that seems to go down the drain.

As we examine the concept of consumer loyalty, we see that the whole problem of molding the American mind is involved here.

Changing Relations Between Producer and Consumer

In more simple days, when the connection between producer and consumer was still close, communication between them was similarly uncomplicated and direct. It consisted of personal contact, of word-of-mouth recommendation, of handbills, and of a few newspaper advertisements.

But as our technology developed, the channels of distribution grew longer and more complex. Not only was it essential that the messages regarding the commodities and services available be brought to the consumer on behalf of the distributors, but our technology kept producing ever more pervasive and persuasive (***) of communication.

To take an analogy from modern physics, we can consider all of these various sales messages as impulses which build up until they produce a sale. The consumer is not only faced with a multiplicity of choices, he is also being bombarded with a torrent of diverse pressures.

Out of this situation a series of studies has emerged to show the consumer as an unpredictable being. We get report after report after report of the low level of loyalty to specific brands.

Thus, a few years ago the supermarkets were debating whether they should carry more than the three leading brands of cigarettes.

Today they are carrying from twelve to eighteen brands.

A short eighteen months ago, Chrysler was selling 21 per cent of the automobiles. In one year its position feel to 11 per cent.

Only 23 per cent of the families who buy a new refrigerator, we are told, buy the same make as the one they are replacing, even though that make apparently has given them many years of good service.

On the other hand, though no money had been spent for advertising, a Hershey Bar still commands the allegiance of more chocolate consumers of every age than all the other chocolate bars together. Likewise, every important survey of women's beauty aid preferences, made by the leading magazines year after year, shows that Faberge leads in sales of cologne. Yet Faberge does not do any national advertising.

Then again, the enormous torrent of advertising behind certain brands and their closest competitors tend to equate them in the minds of consumers- to make one an acceptable substitute for the other.

Colgate's, Lever Brothers, and Procter & Gamble have been promoting detergents ferociously for many years. But Monsanto is giving them all a run for their money or- I should say, is giving them a run for their money with ALL- principally by the device of having every washing machine manufacturer recommend it.

It seems to me that the determining factor is to be found in an element that is the essence of the consumer's wants and, at the same time, is the standard by which communications have always been judged. That factor is significance.

The consumer aspires to standards of eating, dressing, housing, and transportation which involves factors of prestige, social status, and the importance of the individual. Crude and obvious though their methods may be, nobody has better understood this nor more conscientiously sought this than the automotive industry.

Particularly noteworthy has been the care with which each make of automobile has been symbolized, and the symbol maintained through many body changes and other alterations.

Why Brand Loyalty Declines

But in that industry, since the idea has been promoted that owning a more expensive car signifies the consumer's rise on the economic ladder, continued brand loyalty contains within it its own contradiction. This, of course, is why the Big Three- and the smaller Fourth- maintain a hierarchy of automobiles, corresponding to promotions in the consumer's social rank.

This factor of symbol and significance has become partly obscured with the advent of television. Here we have a new and most powerful medium of communication. It creates a new set of conditions, impelling toward a monopoly of the consumer's attention. For the first time, almost the entire American consuming public has become a captive audience. Still, it is an audience in constant motion, for it is playing an elaborate game of musical chairs, a game of shifting loyalties.

What Television Sells

Television actually sells the generalized idea of consumption. It promotes the goal of higher living standards. But the commercials are an intrusion. This captive audience, spending several hours a day viewing television, is faced at best with the necessity of rejecting *all but one* of the automobiles that come into its living room, *all but one or two* of the breakfast cereals, *all but one* of the coffees, the wrist watches, the cigarettes. And since people do leave their television sets at times, they give a hearing to house-to-house salespeople, read newspapers and magazines, look at billboards, and receive mail and handbills. That is, they may reject most of the products offered on television for others which they select as a result of whim, better selling, expediency, price, or any one of a dozen other factors.

In the face of this enormous pressure, there has actually occurred a “degradation of significance” in terms of a decline in the specific character and individuality of many commodities and services.

Quite a few studies have shown that a large proportion of shoppers, when questioned, cannot tell which of several competing variety chain stores, or supermarkets, they have just left. But this sameness of their merchandise, in stores that look like twins, provides the opportunity for different merchandise in stores that look different, individual, with a character of their own. Here is the opportunity for merchandise and services that take on significance from new sources.

In the competition of 1955 the use of new symbols will be particularly important. Franchise merchandising, in which an important name or brand is licensed for use on the products of noncompeting manufacturers, will play an even greater role than it does now. And it is already an enormous factor in merchandising, when you consider the host of Walt Disney products, the cowboy character merchandise, the variety of Duncan Hines food products, the selected assortment of fashion items bearing the Arthur Murray name, the French couturiers whose label goes on so many American-made products, and a host of other applications.

Where Consumer Loyalty Lies

The symbols by which the consumer lives are all subsumed in a larger and far more important symbol. For, regardless of the ambitions (***) manufacturer or retailer may have for products, the consumer’s highest loyalty is actually towards his standard of living, toward the goals, aspirations, and wants which comprise the reason for his existence.

But the disregard of the power of the symbol is to be seen everywhere in the advertising, promotion, packaging, and display of merchandise. The exaltation of the manufacturer’s private and personal ambitions, often not related to the consumer’s needs, is constantly in evidence. Take the beer advertiser, for example, who only a few weeks ago bought full pages in New York newspapers to run the headline, “Sound the trumpets, roll the drums”- certainly the opening for an announcement of work-shaking import! Yet all this ad had to say was that this beer was now the best selling beer in New York, and, incidentally, had reached this eminence by making the “lightest” and therefore the most nearly tasteless beverage. This display was followed a few days later by a competitor who took full pages to announce in modest small type that the other fellow wasn’t telling the truth- his was the biggest and the “lightest” beer! They both forgot that the consumer in the King of “So-What?”

Intelligent Catering to the Consumer

On the other hand, take the recent offering of Birdseye Fish Sticks with a coupon giving a ten-cent reduction on a jar of Hellmann's Tartar Sauce. Here is intelligent catering to the consumer's pattern of life. The woman is encouraged to serve the fish sticks in a manner that reflects her interest in serving new foods correctly. This promotion caters to her desire to shine as a hostess.

The snob appeal is far from being worked out. The drive to emulate the upper social strata still plays an important role in providing goals for the consumer's living standards. Look at how David Ogilvy has harnessed it in the Hathaway man-of-princely-blood with the eye-patch (suggesting a duel perhaps; or a big game hunter?) And again he has done it with the beard, and the very British accent of Commander Whitehead of the Schweppes. I suspect that part of the appeal of the rotisserie broilers is the fact that roasting on the spit has been associated with the wealthy upper social groups, and with expensive restaraunts.

If the consumer's basic loyalty to his standard of living is understood correctly, it is clear that the family thinks only partly in terms of the individual items that satisfy its aspirations. The real goals are to *look* better, *live* better, *dress* better, *travel* better.

Obviously, therefore, every product can enhance its own importance by borrowing significance from other sources. These may be other products- like the pancake mix, syrup, and creamery butter promotion. They may be symbols of social success- as when a dress manufacturer obtains a license to call his products "Arthur Murray Dance Frocks." They may be tie-ups with personalities to wear, endorse, name, or otherwise enhance the product. These devices not only (***) and importance to a product, they relate it to the higher loyalty of the American family toward its standard of living.

Some Facts of Life About the Consumer

In a study made by "The Bach Letter," based upon Federal Reserve Bank figures, we see that in 1946 roughly 20 cents out of the consumer's dollar was tied up in various contractual types of payment. In 1954 this figure reached a high of 32 cents. Included are repayment and interest charges on mortgages and installment credit, rent, insurance payments, and property taxes.

Thus a smaller portion of the consumer dollar is now available for those goods and services that are not contracted for in advance. It follows, therefore, that one answer to competition in 1955 must be an extension of consumer credit and installment selling.

Retailers must face the fact that the urban population is shifting in massive proportions. The middle- and upper-income groups are moving to the suburbs, where they not only have higher rent or property maintenance charges, but are also changing many of their habits in eating, dressing, transportation, recreation, and social contacts.

Where clothes were formerly the measure of the man, or woman, today the hostess may entertain in the most casual dress, but her table settings, her decorations, her recipes, and her manner of serving become her claims to social status and prestige.

It is in the income groups of over $5,000 a year that we see the highest rate of movement out of the cities. Yet a study of these families shows that they have the highest proportion of two or more wage earners. How does this fact comport with the price lines of *chi-chi* brand stores?

Is it not a fact that in more and more areas in which "big ticket" items were sought out for their individuality, there is now a trend towards conformity? And does not this result in more intense price competition on refrigerators and carpets, men's shirts and women's foundation garments, shampoos and curtains, loafer shoes and television sets, garden supplies and power tools, housewares and sheets and pillow cases?

In part, the standard of living to which the consumer aspires is shaped by the pressures upon him by manufacturers and retailers. In part, it is dictated by the changes in his own way of life. It is only by merchandising that is sensitive to both of these factors that retailers can avoid the most devastating effects of price competition.