

THE ECONOMICS OF ADVERTISING

by

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ECONOMICS OF ADVERTISING

Chapter 1

INTRODUCTION

In almost every phase of life, advertising appears as a dynamic force urging one to live according to its precepts. One is exhorted to buy this product; to go to this university; to attend this church; to live on this street; to wear this particular style or make of clothing; to support this charitable cause; to buy these stocks and bonds; to eat this in order to maintain normal health; to join the army or the navy; to buy insurance; to vote for this candidate; etc., etc. Thus, advertising in some form permeates the social, economic, physical, and religious life of man.

The earliest form of advertising was the spoken word. (1) In early Hebrew, Greek, and Roman civilization public criers were a recognized institution. These salesmen would roam about the streets, each proclaiming the particular merits of his product.

It is difficult to say just when the first written advertisement was made. There is a bit of papyrus in the British Museum upon which an Egyptian 3000 years ago wrote an advertisement asking for the return of a runaway slave. In ancient Rome placards were used in front of shops; signs

were posted before houses, etc. So, up until the middle of the fifteenth century advertising was done either by the spoken word or by the use of placards.

The foundation of modern publicity and advertising was laid with the invention of printing. (2) Printing was used by the ancient Chinese as early as the sixth century. The British Museum possesses books printed in Korea as early as 1377. But the honor of inventing movable type is ascribed to Johann Gutenberg, who labored in secret at Strasburg and made his processes known in his native city of Mainz in 1486. (3) An entirely new field was thus opened for advertising.

The importance of newspapers and periodicals was beginning to be realized. The first daily newspaper in England was the "Daily Courant" published in 1702. The first weekly in America was the "Boston Newsletter" published in 1704. By 1870 the use of magazines for advertising was well established. (4)

"In the 60 years since 1876, advertising has evolved from a little black-and-white half page into a mad maelstrom of color, motion, sight, and sound." (5)

From such humble beginnings has grown a business with an annual expenditure of approximately \$1,502,000,000 in the United States alone. According to estimates made by the Committee on Recent Economic Changes of the President's Conference on Unemployment (1939) this exp-

enditure may be classified as follows:

Newspapers	\$690,000,000
Magazines	210,000,000
Direct Advertising	400,000,000
Outdoor	75,000,000
Radio	60,000,000

What reasons have motivated American manufacturers, wholesalers, retailers, to spend such a large amount?

The real reasons for the tremendous growth of advertising may be traced back to the Industrial Revolution. Technological improvements and inventions have resulted in mass production of goods. Therefore the problem of where and how to sell these products arose. T. R. Malthus, almost at the beginning of the Industrial Revolution, suggested that production might exceed consumption. He suggested that "demand creation" was a necessary adjunct to machine production in a dynamic society if gluts were to be prevented. (6) Production of goods is not enough -- a demand for them must also be made. Advertising is the tool that creates this demand.

What is meant by the term "advertising"? The actual word comes from a Latin root meaning "to turn the attention to." Throughout this thesis advertising shall be considered from the professional view-point. Brewster and Palmer refer to advertising as " - - - - - purchased publicity directed according to a definite plan to influence people to act or to think as the advertiser

desires." (7)

Kenneth Goods in his "Manual of Modern Advertising" expresses the same general idea when he defines publicity as " - - - an expenditure of money in a professional medium as an attempt to secure profitable results in commercial quantities." (8)

Advertising is not an end in itself. Action is the end and advertising is only a means towards that end which is increased sales. There is much truth in the aphorism "Repetition is Reputation." An advertiser wants his particular trade mark impressed on the public with as much force as possible in order to increase his sales. The essence of a successful advertisement is ability to repeat its own success with reasonable certainty and profitable regularity. (9)

Products
"The immediate aims of those who advertise are to increase or create demand for a type of product or service, to direct the demand already existing for such a product or service to some particular brand, to divert demand from competitors and from other products, and to retain demand already realized." (10)

These are the underlying aims of all commercial advertising. There are, however, many functions of advertising which this quotation does not make special note. Some of the functions are:- (11)

Primary Functions:

1. To influence more people to use a product

or service;

(a) By securing new users.

(b) By diverting trade from competitors.

2. To influence people to use the product or service more extensively; to buy in greater quantity:

(a) By encouraging more frequent use or replacement.

(b) By encouraging use in larger quantities.

(c) By encouraging use for longer periods and on unaccustomed occasions. The American Ice Co. have tried to convince people to use ice throughout winter.

Secondary Functions:

1. To prepare the way for sales:

(a) By securing leads for salesmen.

(b) By stimulating the sales force.

(c) By encouraging the cooperation of retailers.

(d) By creating a favorable impression on potential distributors.

(e) By introducing the sales force and distributors to the public.

(f) By building up good-will and prestige. Good-will has been termed the most valuable, intangible factor in the success of any business. The constant

advertising of a trade mark representing a product is one method advertisers use to create prestige.

2. To remove the obstacles to the sale:

- (a) By overcoming false impressions, prejudices, fears.
- (b) By discouraging substitution.

3. To encourage continued patronage:

- (a) By familiarizing the public with a trade or firm name.
- (b) By encouraging the development of buying habits.
- (c) By supplying useful information regarding new uses, upkeep, etc. to the customers.
- (d) By keeping existing customers reminded and convinced of the desirability of the product.
- (e) Advertising may be used to create insurance for a business. The dealer is desirous of knowing in advance what goods he must keep on hand. As advertising increases sales, the dealer will be reasonably certain of selling nationally known products.

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Chapter 2

THE ADVERTISING AGENCY

The development of the advertising agency in the field of business administration is synonymous with the evolution of advertising. One of the first agents was Volney B. Palmer who established a business in Philadelphia in 1841. (1) Since that time approximately 1,500 agencies, varying in size from small local concerns to national and world-wide organizations, have been established in the United States alone.

The influence which the modern agency has had and is having on American business is worthy of consideration. Frank Presbrey, the head of a large American advertising firm once said:

"A very large part of the prosperity of the United States since 1900 is a result of advertising, and much of the tremendous industrial and social progress made is attributable to the initiative of the advertising agency, an ever-developing organization from which individual and collective industry are constantly receiving new stimuli." (2)

There is much truth in the above statement as will be seen by the reader of this thesis.

Nixon defines an advertising agency as an organization of specialists who assist the advertising

department of the manufacturer and the retailer in the preparation and placing of advertising. (3)

This organization is an example of a modern application of the Division of Labor. Modern business is so complex today that specialized knowledge in the field of distribution is demanded. The advertising agency aims to supply this knowledge.

The degree of success which a business enjoys is very often directly attributable to advertising. Therefore, a business firm should select its agency with a great deal of care. The choice will usually be influenced by the size and sales objectives of the advertiser. In selecting an agency several factors should be carefully considered, some of which are: (4) the size of the agency; the experience and ability of the personnel; the mechanical equipment; the research department; the media department; the merchandising department; the art department; the location of branch offices; the number and size of present accounts; the age of the organizations; the financial stability; the business ethics of the agency, etc.

The manner by which an agency secures remuneration is unique among business organizations. The method is indirect. The advertiser places the appropriation with the agency which buys radio time, newspaper space, etc. The agency, in paying the medium, deducts a certain commission, usually 15% of the cost of advertising. Media owners find it desirable to allow this 15% commission because of the

advantages the agency system offers. Such a system tends to develop new advertising business, improve the quality of advertisements, reduce credit losses, simplify dealings with advertisers, etc.

Previous to 1890 the functions of the agency were simply to buy space and make sure that the advertisements appeared as ordered. (5) But today its functions are widely varied and of high importance to the modern business man. Some of these functions are: (6)

1. The studying of the product or service to be advertised in order to determine qualities inherent in the good.
2. The analyzing of the present and potential market for which the product or service is adapted. Such a study will entail a knowledge of present and possible future economic conditions; the actual and potential competition; the extent of the possible sale, etc.
3. The studying of the relative advantages and disadvantages of all available media.
4. The formulating of a merchandising plan in cooperation with the advertiser.
5. The executing of this plan which includes preparing the copy, purchasing illustrations, checking and verifying insertions, paying the publications, artists, etc.

These functions will be discussed in detail under the headings: the advertising appropriation, market analysis, and selection of media.

The Advertising Appropriation

Advertising in some form is essential in the efficient management of any business. Ordinarily, there is a very close correlation between sales and publicity. Well conducted advertising facilitates the distribution of a product. Therefore it must be reckoned as a direct selling expense. When business executives are determining the costs of producing an article they must also consider the cost of creating a market for the product.

How much should be spent on advertising? The amount will vary from 1% to 40%, depending on the type of product to be sold. (7) Articles which should "turn over" very quickly such as drugs, foods, etc., must necessarily be advertised more extensively than articles of slow turnover. In 1929 and 1930 the American Association of National Advertisers made a study of the budgets of 506 national advertisers. Hasse has tabulated the results which are typical of the various amounts spent in advertising different products.

Relationship of the Advertising Appropriation to Total Sales Volume of Products Advertised. (8)

Business Classification	Typical Percentage Figure	
	1930	1929
Drugs and Toilet Articles	19.6	21.2
Paints and Varnishes	6.4	6.6
Chemical and Allied Manufactures	6.1	6.3

Business Classification	Typical Percentage Figure	
	1930	1929
Electrical and Radio	5.9	5.9
Jewelry and Silverware	5.7	5.7
Food	5.6	5.8
Office Management and Supplies	5.3	5.2
Hardware	4.7	4.4
Travel and Transportation	4.6	4.6
Household Equipment other than Electrical	4.5	4.5
Agricultural Equipment and Supplies	4.1	4.0
Clothing	3.8	3.8
Furniture	3.7	3.9
Automotive	3.5	3.5
Leather and Shoes	3.2	3.1
Textiles	3.0	3.1
Building Materials	2.8	2.6
Paper and Paper Products	2.6	2.6
Metal, Machinery, etc.	2.5	2.3
Financial and Insurance	1.1	1.0

Capital spent on advertising represents an investment. Every dollar spent must result in the creation of good-will and increased sales if the advertiser is to accomplish his main purpose. Therefore, great care must be exercised in determining the amount to be appropriated for publicity. In order to compete with larger firms, a

company may be tempted to endanger the financial stability of the business by spending more on advertising than is practical. The working capital -- often termed the life-blood of industry -- should not be depleted. Advertising appropriations should be determined in accordance with the financial standing of the company.

There is no "rule-of-thumb" method for the determination of the necessary advertising appropriation. A great deal depends on the type of business, the class of products, the financial standing of the firm, and its size. However, there are four main methods of answering the question, "How much should be spent on advertising?" These methods are: (9)

1. The Percentage Method.
2. The Unit-of-Sales Method.
3. The Mail-order Method of Buying Direct Sales or Inquiries.
4. The objective and Task Method.

Each of these methods, in order to be satisfactory should meet two tests: Is the appropriation consistent with the financial position of the company, and does it provide sufficient money to accomplish the desired results of the advertiser?

The Percentage Method (10)

The percentage method may be defined as "the allocation to advertising of a given percentage of some annual figure related to volume of sales." (11) The

allocation for advertising may be based either on the sales of the previous year or on the average sales of the past four or five years. The latter method is preferable because the previous year may have been one of unusual depression or of unusual sales volume. Hence, if the previous year only be taken as a criterion, the amount appropriated may be either too small or too large. Therefore, the method of averages will result in a more normal figure.

The percentage method is the one most commonly used to determine an advertising appropriation. Its popularity is attributable to its simplicity. However, simplicity is not always an advantage. Advertising is a direct cost of business and should be considered in relation with all the factors of selling and administrative expenses. Some advertisers might attempt to surpass their competitors' appropriations without giving due consideration to the economic merits of such a procedure. The very simplicity of the percentage method will result, in many cases, in impractical appropriations. Therefore, other methods must be investigated.

The Unit-of-Sales Method (12)

This method consists in setting aside for advertising a fixed sum for each unit of the product sold. The advertising budget is usually based on the number of unit products expected to be sold.

This system is remarkably practical for certain

types of industries such as the automobile industry, the manufacture of washing machines, etc. For example, a motor company, after a careful analysis of business conditions can estimate with considerable accuracy the number of cars it is likely to sell during the year. Therefore, the executives in determining the cost of each car can add a definite amount to take care of advertising.

An advantage of this system lies in the easy way in which the manufacturer can assess the dealer for a share of the advertising expense. As the dealer will benefit from the publicity it is only right that he should bear part of the cost.

The advertising appropriation is directly related to potential sales based on a survey of the market. The distinction of the unit-of-sales method lies in the fact that "it forces advertisers more carefully to explore the market possibilities for their products than does the percentage system. In other words there is less guessing on the base figure." (13)

The Mail-Order Method of Buying Direct Sales or Inquiries.

The mail-order merchant largely depends on advertising to sell his goods. There is, then, a direct relationship between the cost of this sales stimulus and the results obtained. The usual advertising medium of the mail-order house is the catalogue. The Sears-Roebuck Company prints about 40,000,000 catalogues per annum.

The practicability of such advertising can be

determined only by test campaigns. (14) Over a period of years the retailer will find periods of low sales and periods of high sales. These sales should be related to the respective advertising cost. From such data the merchant can estimate what amount to spend on advertising in order to obtain the most sales.

The objection to this method lies in the "unscientific" manner by which the advertising appropriation is determined.

The Objective and Task Method (15)

This method is preeminently satisfactory. It is the most "scientific" of the four methods of determining the advertising appropriation. There is a direct relation between the advertising appropriation and the total budget, and there is an equally direct relation with the sales volume.

The terms "objective" and "task" considered together refer to a marketing program projected over a number of years. Hassel defines the method; (16)

"The objective and task method consists in establishing a definite market objective, based on a thorough survey of the market and its potentialities, and of determining the kinds and amount of advertising necessary to accomplish this task."

The first step in applying this method is a thorough analysis of the market. Sales forecasts must be

made. The probable fluctuations in general business conditions must be considered. The whole problem of market analysis will be carefully examined in a later section of the thesis.

According to Hasse there are three advantages of this method:

1. Business executives are not unduly influenced by the actions of their competitors. The advertising appropriation is based on a careful market analysis and is not merely an amount allotted to surpass the appropriation of a competitor.

2. There is a great opportunity to make effective use of market research.

3. As a result of this research business executives can plan production more accurately because the probable trend of consumer demand is known.

Market Research

The purpose of market analysis is summarized in the definition H.W. Hess of the University of Pennsylvania attributes to merchandising:

"Merchandising is that function of modern selling distribution whose primary purpose is: first, to establish through investigation the potential market of a given article, product, commodity, or proposition; second, either to make the immediate channels of distribution more efficient or to devise new channels of consumer approach in relation

to profits and consumer satisfaction; third, to describe, define, and formulate scientifically in accord with economic principle or theory such advertising and salesmanship technique as will produce maximum returns with a minimum of effort." (17)

Market research is the means which an advertiser uses in order to ascertain where he can sell his product. Under the present system of mass production such knowledge is essential. Goods are produced in such vast quantities that if production is to be maintained a steady demand or market for these products must exist. A factory does not exist solely for production. It must also market the goods produced. Goods have no value whatever unless there is a demand for them. Advertising is a tool which helps create this demand.

Manufactured articles follow one of three principal routes in moving from the manufacturer to the consumer: (18)

1. From the manufacturer direct to the consumer.
2. From the producer to the retailer to the consumer.

The problem of distribution has become so great that, to ensure efficient distribution, the third route has been found to be the most practical. In a prosperous year the combined direct, retail, and wholesale trade of the United States may amount to more than 120 billion dollars. (19)

These goods flow through 1,649,081 retail stores in the United States (1935) to some 129,000,000 consumers. The chief function of advertising is to stimulate, to direct, and in some measure to stabilize this flow. (20)

The up-to-date advertising agency analyzes the actual and potential demand for a product in order to spend the advertising appropriation in the most profitable manner possible. A thorough knowledge of market conditions lessens the risk of wasted advertising. (21)

Market analysis endeavors to discover several pertinent facts regarding the economics of distribution. Some of these factors to be discovered are: (22)

1. What human need does the product satisfy?
2. What persons or groups of persons may experience this need?
3. Where these persons or groups of persons are located? The J. Walter Thompson Advertising Company has divided the United States into several geographical, sales zones. Each zone is considered a separate entity in which potential sales are studied.

The Canadian population, in a like manner, can be divided into five geographical divisions, viz., the Maritimes, Ontario, Quebec, Prairie Provinces, and British Columbia.

4. What means of alternate satisfaction have these persons? What is the degree of competition? Once the extent of possible substitution is known the advertiser

will endeavor to relate his product to the market in such a manner that the product will seem a little superior to the standard of that market. Such a procedure is the art of true merchandising. (23)

5. What proportion of present and prospective purchasers now buy the product?

6. How can the various groups obtain the product? What place have chain stores in the field of distribution?

7. What is the best way of reaching the market with a sales message? The securing of this knowledge entails an analysis of trade channels, advertising media.

8. What proportion of those who do not buy the product, but might reasonably be regarded as possible purchasers may be induced to buy it during the ensuing years?

9. What factors outside of the advertiser's control are likely to affect, favorably or unfavorably, the demand for the product? For example, to what extent are sales of a seasonal nature, etc?

10. What is the purchasing power of a district, or city? Many factors have been considered as possible indicators of purchasing power, some of which are; (24) income tax returns; automobile registrations; telephone subscribers; bank deposits, number and volume of bank cheque transactions; total population; number of families; number of wage earners and wages paid; value of manufactured products; number of retail outlets; homes owned;

value of crops, fishery products, mineral products, etc.

The advertising agency must secure data relative to the above purposes of an analysis of the market.

There are two main sources of information from which a research agency can secure the requisite data; (25)

1. Existing records are often studied by the Research Director of an advertising agency. Such records are the government publications issued by the Canadian Bureau of Statistics. Commercial directories such as Dun and Bradstreet's "Credit Ratings" are of value. Some publishers and advertising agencies issue their own market analyses. e.g. H.W. Ayer and Son of Philadelphia, annually publish a survey of the newspaper and periodical fields of the United States and Canada. Reports of trade organizations, Chambers of Commerce, etc. are valuable. Some universities such as the Harvard School of Business Administration make practical studies of the market, etc., etc.

2. The second manner in which data are secured is by the method of original investigations which include observation, the use of questionnaires, and correlation.

Observation gives precise information about a condition during a certain time and at a certain place. For example, outdoor advertising companies often count the number of people or cars passing a particular sign at a given time. This method is not very satisfactory. It

is impossible to discover how the advertisement reacted upon the people. That is, did the people who saw the advertisement increase their purchases of the product advertised or buy it for the first time?

Correlation consists in relating two pertinent factors to each other. e.g. an advertising agency may desire to discover the correlation between the sale of a farm magazine and the number of farmers.

Questionnaires may be either written or personal. Great care must be taken in selecting the questions. If the investigation is to be relatively accurate the questions must not be ambiguous. There must be no occasion for bias or misrepresentation.

The problem of what constitutes a fair sample should be carefully considered. The size and quality of the samples selected must be representative of the chosen group. If the article is of common usage and the group under study homogeneous then a small sample will suffice. The analyst must remember that the case of each product is an individual case because of climatic conditions, frequency of purchase, differences in regional customs, etc.

Once collected, the data must be systematically tabulated and correlated. Such data, if properly compiled and accurately classified, form the basis of market research conclusions. From such basic figures and related data, the agency may forecast with a high degree of

accuracy the probable business conditions for the ensuing year or years. Such information is invaluable in the planning of an advertising campaign.

There are two principal theories upon which forecasts are made -- the Lag theory and the Area theory. (26)

The Lag theory is based on the observation that certain factors rise early at a time of business expansion; other factors rise at a later stage; while still other factors with a pronounced "lag" may not rise until the close of the period of business expansion. Babson cites as an illustration of this theory the behavior of the stock market. An upward movement in business is usually foreshadowed several months in advance by a rise in stocks, and the market has often anticipated a downward turn in business by a considerable interval.

The Babson Statistical Organization favors what is known as the Area Theory. (27) This theory is an outgrowth of Sir Isaac Newton's law of action and reaction. Briefly, Newton maintained that every action is followed by an equal and opposite reaction. This law which obtains so rigorously in physics and mechanics can be applied likewise to economic and human relations. Suppose that a period of abnormally great activity has lasted several years, thus forming a big area on the graph. With considerable assurance one can forecast that the ensuing period of depression will be equally large. Whether the

depression will take the form of an excessive drop of brief duration or a moderate decline extended over a prolonged stretch, no man can foresee. History illustrates that after every major war the period of reaction has taken the form of a business depression. In 1924 Babson predicted within the following decade a great depression as a result of the World War. Given the action, the reaction can be predicted with some degree of assurance. It is the prognostication of the action which offers special difficulties.

Industries and localities are affected with varying intensity by a boom or a depression. Each industry and each locality must be considered individually. Babson says:

" - - - - decide on the outlook for general business, then decide on the industrial outlook as a whole, and finally connect up the individual line with the trend of all industries as a group." (28)

Therefore, if an analysis of the United States or Canadian markets is to be made the country must be divided into geographical sales zones. Conditions in each of these zones must be studied and from these analyses the general business outlook for the whole country may be deduced.

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Chapter 3

ADVERTISING MEDIA

"A medium is any means by which the advertiser's message is carried to the public." (1)

Bruce Barton, recently called the "mogul" of American advertising, gives as his definition of a medium:

"From the shabby individual on the sidewalk with a sign on his back extolling the merits of a pants pressing shop, to an expedition to the ends of the earth sponsored by a great newspaper, any channel through which the name of an individual, a product, or a service is made known to the public, may be classed as an advertising medium." (2)

The billion dollars annually spent on advertising in the United States is divided approximately among: (3)
(1936 figures)

Newspapers	48 %
Direct Advertising	20 %
Magazines	12 %
Radio	10 %
Business Papers	4 %
Outdoor Advertising	3 %
Car Cards	1½%
Other Media	1½%

The value of a medium is partly determined by the type of product advertised; the class of people to

whom it is sold; the sales objectives of the advertiser; etc. As Nixon says:

"The market and the message determine the media." (4)

A prime function of market analysis is the selection of the proper trade channels, that is, the choosing of a medium or media which will convey the advertiser's message to the greatest number of prospective customers. One medium may be valuable for one advertiser but worthless for another. As a general rule an advertisement partakes of the standing and character of the publication in which it is printed. For example, a product such as plug tobacco would not be advertised in high-class magazines like Vogue, Harper's Bazaar, etc. The magazine may add sophistication to a product or it may convey the idea of simplicity.

Two considerations are of fundamental importance in judging any trade channel; (5)

1. The number and type of people that the medium reaches. An advertiser wants to know the circulation or coverage of the medium. Information of this character regarding newspapers may be obtained from Audit Bureau of Circulation reports. He also wants to know whether the people reached by the medium want his product. The advertiser wants to know many facts about the people reached, for example, sex classification, age distribution, racial classification, purchasing power, buying habits etc., etc.

Market analysis, as has already been pointed out, plays a very important role in such an investigation. (6)

2. The degree and kind of attention which the advertisements command. The attention received by the advertisements may be classified as either voluntary or as spontaneous. The basic difference is that in the former the attention is deliberate and intentional while in the latter, attention is "forced."

Voluntary classification includes such media as mail-order catalogues, directories, classified advertisements, etc.

The spontaneous group comprises newspapers, billboards, the radio, etc. This group includes those media in most common use. Most advertising, therefore, must be prepared on the assumption that the public will not deliberately and intentionally attend, but must be sought out and arrested while occupied with other interests. (7)

Nixon classifies media according to the attention received. (8)

<u>Medium</u>	<u>Type of Attention Given to Advertisements</u>
Magazines	Mostly spontaneous. Some voluntary.
Newspapers	Mostly spontaneous to display advertisements. Voluntary to classified, and to some department store advertisements.
Direct Mail	Spontaneous except when the individual has written for literature.

<u>Medium</u>	<u>Type of Attention Given to Advertisements</u>
Catalogues, Directories	Voluntary. Some spontaneous.
Business Papers	Considerable voluntary. Some spontaneous.
Outdoor Advertising,) Car Cards, Radio)	Mostly spontaneous. Some voluntary.
Novelties and Premiums	Spontaneous attention.

There is a varying degree of reader confidence in newspapers. When readers of several newspapers were interviewed to discover the relative degree of confidence in the published advertisements, the following results were obtained: (9)

<u>Newspaper</u>	<u>Average Belief</u>
A	65.9%
B	55.3%
C	55.1%
D	55.1%
E	29.8%
F	28.6%
G	28.4%

While the above investigation resulted in rather nebulous conclusions, still it demonstrates the divergent reputations of various publications. Although this analysis does not show any correlation between degree of belief and sales, still it can be reasonably concluded that the paper in which the readers have greatest confidence is the one to be preferred.

The most important factors in the selection of media were studied by James I. Gorton in 1932. He tabulated his conclusions as follows:

Important Factors in Selection of Media

According to Several Agencies and Advertisers. 1932 (10)

Order	Factors Mentioned	Total Times Ment'd	Times Ment'd by 47 Agencies	Times Ment'd by 25 Advs.
1	Circulation	5	32	19
2	Editorial Content and Policies	44	29	15
3	Income and Buying Power of the Readers	40	26	14
4	Reader Interest	33	19	14
5	Costs and Rates	29	19	10
6	Advertising Lin- age Figures	26	19	7
7	Coverage of Market	25	13	12
8	Method used to gain circulation	22	11	11

From this analysis it may be seen that the advertiser considers the potential audience, plus the "class" of the paper, plus the purchasing ability of the readers, to be of prime importance in the selection of a medium.

Newspapers

Into this trade channel flows approximately 50% of the national advertising budget of the United States. There are approximately 13,350 newspapers in America. Of these, 200 are dailies, 10,800 weeklies, and the rest are semi and tri-weeklies. It is estimated that the combined circulation of all the papers (excluding the foreign ones) is approximately 40,000,000 copies daily. Probably most of these copies are read by more than one person. It is claimed that 87.5% of the nation's (U.S.A.) homes are reached by the daily papers alone. (11)

The daily newspaper is growing in importance. It is the medium of the moment, flexible, powerful, and instantaneous in its ability to create sales. (12) In Canada during 1936, and in both the United States and Canada during 1937, newspaper circulation surpassed all previous records. (13) The steady growth in demand for newspapers should be of a particular interest to merchants and manufacturers since it indicates that in spite of the competition of news broadcasts the newspaper is continuing to make headway in popular esteem. (14)

The following figures, computed by the N.W. Ayer and Son Advertising Agency, illustrate this growth of newspaper circulation.

Average Daily Newspaper Circulation. (15)

Year	Canada 10 Cities	United States 50 Cities
1926	1,205,967	18,118,020
1929	1,356,523	20,341,544
1930	1,406,742	20,920,786
1932	1,423,636	20,388,965
1936	1,436,156	19,939,154
1937	1,488,526	21,047,492

Newspapers possess certain advantages not held
by other forms of media: (16)

1. UNIVERSAL APPEAL :

- (a) As far as can be ascertained, the newspaper has an intimate appeal to all members of the family.
- (b) The newspaper reaches all classes of literate people.
- (c) The newspaper has thorough distribution. It finds its readers whether they are at home or not. If the readers are not at home, it reaches them where they are travelling -- on trains and cars, in hotels, clubs, and libraries.
- (d) The newspaper reaches the business man. It is to the business executive one of the most necessary mediums of information.

2. IMMEDIATE APPEARANCE :

- (a) Impulse to immediate action; because the newspaper deals with the immediate fact and the opinion of the day, its columns give an impulse to immediate action.

- (b) Quick insertion: through the newspaper the reader may be reached within a few hours after the copy is prepared.
- (c) Quick change: advertisements in a newspaper may be changed or even cancelled up to a few hours before going to press. This flexibility is not found in magazines.
- (d) Quick repetition: "Repetition is reputation" is an aphorism of considerable truth. An advertiser can apply this axiomatic truth by daily insertions of his advertisement.
- (e) Timely copy: newspaper copy can be adapted to the day on which it appears, or to current events, and can avoid untimely references.

3. FREQUENCY OF APPEARANCE :

- (a) The choice of the day: the newspaper advertiser has his choice of the precise day of the week most suitable to his advertising.
- (b) Intensive campaigns: newspaper advertising permits any intensity desired, up to daily insertions.
- (c) Cumulative effect: a newspaper campaign may be planned to obtain a maximum cumulative effect through the flexibility of space and intervals.

4. LOCALIZED CIRCULATION :

- (a) Close to place of purchase: the reader of a newspaper advertisement can go directly to the place where the article advertised is on sale.
- (b) Spotty distribution: the advertiser with spotty distribution can, by using newspapers, advertise exclusively where his goods are on sale.
- (c) Strengthening weak territory: the newspaper may be used to strengthen weak

spots in the distribution with the exact degree of force desired.

- (d) Localized copy: newspaper copy and illustrations may be made to meet precisely, and take advantage of, local conditions.
- (e) Traceability: the effect of newspaper advertising may be traced by observing the course of sales in each community.

National Magazines

In 1937 there were approximately 5,680 magazines in the United States. (17) These varied widely as to size of circulation, class of appeal, etc.

The magazine chosen by an advertiser depends on the product to be sold. Should the product be advertised in a magazine of mass appeal, such as "Liberty", or in a magazine of limited appeal such as "Chatelaine", "Vogue", etc.? There are many factors which the advertiser must study before the most advantageous magazine for a particular product can be chosen. Such factors are: amount of circulation, geographical distribution, interests of audience reached, homogeneity of the audience, extent to which the same audience is reached by other magazines, etc.

The greatest disadvantage of using magazines as advertising media is lack of flexibility. Contracts for space have to be taken weeks, or often months, in advance. Hence, it is impossible to suddenly change a campaign if economic conditions warrant this alteration.

However, national magazines possess certain advantages over other channels of advertising: (18)

1. NATIONAL COVERAGE: The advertiser can tell the whole nation about his product.

2. LONG LIFE IN THE HOME: Newspapers are of an ephemeral character while magazines are often read for several days or weeks.

3. BETTER PRINTING combined with an elaborate use of color enhances the selling power of an advertisement.

4. Tie-up with NATIONAL PRESTIGE of the publication. Some magazines have built up good-will which can be capitalized on by an advertiser.

Direct Advertising

The \$400,000,000 annually spent in the United States on direct advertising is divided among mailing cards, envelope enclosures, folders, booklets, catalogues, etc.

Letters add a direct personal touch to advertising but would prove far too expensive for the majority of advertisers. If a product is of an exclusive nature such as a Rolls-Royce automobile, then a sophisticated-looking letter would be one efficient means of advertising. But such publicity would be too expensive for a manufacturer of such a widely used product as cigarettes.

Radio Advertising

This medium has developed within the last 15 years

to a place of great importance in advertising. In 1937 there were approximately 600 stations in the United States. In the same year approximately 24,500,000 American homes were equipped with radios. This number is approximately 78% of the total number of homes in the country. (19)

Radio advertising may be either local or national. Local broadcasts take the form of "spot" broadcasts. The advantage of such broadcasting is that the advertiser can choose his time and plan his message so as to appeal to local conditions. However, approximately 75% of the total United States broadcast advertising in 1934 was placed over stations affiliated with national networks. (20)

Three of the more important advantages claimed for radio broadcasting are; (21)

1. It WINS CONSUMER ACCEPTANCE for a product and stimulates good-will by creating a better appreciation of the manufacturer. Of course, the program must be enjoyed by the public if good-will is to be built.

2. It PROMOTES DEALER COOPERATION and aids salesmen. Written advertisements may also accomplish this result but radio advertising adds the personal touch which if capitalized upon is often worth much to the manufacturer.

3. The SUCCESSFUL UTILIZATION OF THE SERVICES OF KNOWN ENTERTAINERS may augment to a very considerable

degree other forms of advertising.

Outdoor Advertising

This form of advertising comprises bill-boards, electric signs, etc. Briefly, this type of publicity possesses the following attributes: (22)

1. FLEXIBILITY. The advertiser can reach a city block or the whole nation.
2. Its CIRCULATION IS ALIVE at all times because usually the public are passing the advertisement continuously. There is continuous daily appeal.
3. COLOR can be used very profitably.
4. To the LARGE SIZE of a bill-board or sign attaches much attention value.

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Chapter 4

ADVERTISING AND PRODUCTION

The Industrial Revolution ushered in the era of mass production. Since then, the trend in all civilized countries has been towards large-scale production.

The underlying cause of the growth of mass production is the economy deriving from the increasing application of the division of labor; the use of machinery; and the application of inanimate power. The characteristic features of this transition to an industrial state have been that the size of the individual establishment has become larger, and the total number of establishments has become smaller. (1)

Over 7,000 mergers occurred in the manufacturing industry in America between 1919-1928. In the American anthracite coal industry, four companies now produce one-half of the total output. The United States Steel Corporation controls from one-half to three-fourths of the iron ore reserves of America. International Nickel owns more than 90% of the known commercial nickel resources of the world. Bell Telephone controls about four-fifths of the telephone service of the United States. General Motors, Ford, and Chrysler dominate the automobile industry. Two packers, Swift and Armour, handle over 50% of the meat entering inter-state commerce. The National Biscuit Company is a dominant figure in the

biscuit business. Three corporations control over 70% of the American tobacco trade. General Electric and Westinghouse manufacture more than half of the electrical equipment of North America. The du Ponts, the American Chemical and Dye, and the Union Carbide and Carbon Co. with subsidiary plants are preempting to an increasing extent the expanding field of chemical manufacture in United States and Canada. Four corporations dominate the American rubber industry. (2)

Large-scale production is more common in industries showing decreasing costs than in those showing increasing costs. (3) To quote Taussig:

"The greater the extent to which plant and machinery can be used, the more concentrated the industry and the smaller the area on which a given volume of production can be turned out, the more probable is the tendency to lessening cost and increasing return." (4)

Therefore, manufacturing is influenced to a greater degree by large-scale production than is agriculture.

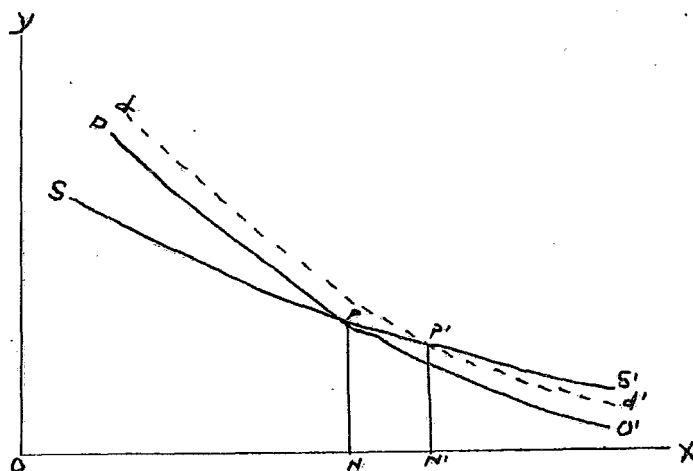
The producer is desirous of increasing his production up to the point where he can produce the greatest quantity at the lowest net cost. He wants to get maximum production before diminishing returns set in.

However, mass production of goods is dependent

upon an increasing demand for the products. Unless the goods can be sold profitably, production will be stopped or drastically reduced. Advertising is one of the main methods of establishing consumer demand.

The cost of producing goods in some industries has been reduced because of various reasons. The increased demand for the products of industry as a result of efficient publicity has been a contributing factor of major importance. Greater consumption has meant greater production which means lower costs of production. Countless examples of lowered costs may be found throughout modern life. The automobile of today is improved in quality and costs less than the car of 20 years ago. A well known camera which 35 years ago sold for \$25.00 has been improved and now sells for \$10.00. (5)

F.W. Taussig illustrates the result of increased production on costs by means of a graph. Industry is assumed to be operating under conditions of increasing returns. (6)



DD' represents the demand curve and SS' the supply curve. In order to produce and sell ON goods the unit cost will be equal to PN . Suppose the manufacturer increases the supply. Such an increase would not be made unless an increased demand for the product is relatively certain. The demand curve will shift to dd' . An amount of goods equal to ON' now cost $P'N'$ per unit. With increased production, costs have diminished under conditions of increasing returns.

Unless man's ingenuity continues to invent technological improvements a time must come when diminishing returns set in. The larger market areas necessary for the proper distribution of the increased quantity of goods involve increased costs of transportation and distribution. A case in point is the great English daily newspaper where with a circulation of nearly 3,000,000 a day the costs of distribution have become increasingly high. Such papers as the "Daily Mail" are printed simultaneously in London and Manchester in order to decentralize the distribution.

Once the point of maximum production, at least unit cost in a plant, has been reached, there are three alternatives facing the industry: (7)

1. The present production of the plant may be maintained at the optimum level with no further ex-

pansion.

2. The management may decide upon a program of horizontal combination. The number of plants is increased but the management is centralized in one central office. The American Sugar Refining Co. affords an example of combination. (8) A modern refinery has size limits. Beyond a certain point, expansion of the refinery is not economically sound. When that point is reached a second refinery is built and controlled by the same management.

3. The plan known as integration may be followed. Here several contributing industries are controlled by a central office. The United States Steel Corp. owns its own iron mines, coal mines, railways, ships, steel mills, etc. (9) There is no advertising of anything except the finished product under a system of integration. As integration increases total advertising will decrease. (10)

Advertising has played a large part in the stabilization of industry. This result has been accomplished because advertising has helped maintain a steady demand for a product. When the prospective demand for a product is known the producer can plan his production more accurately.

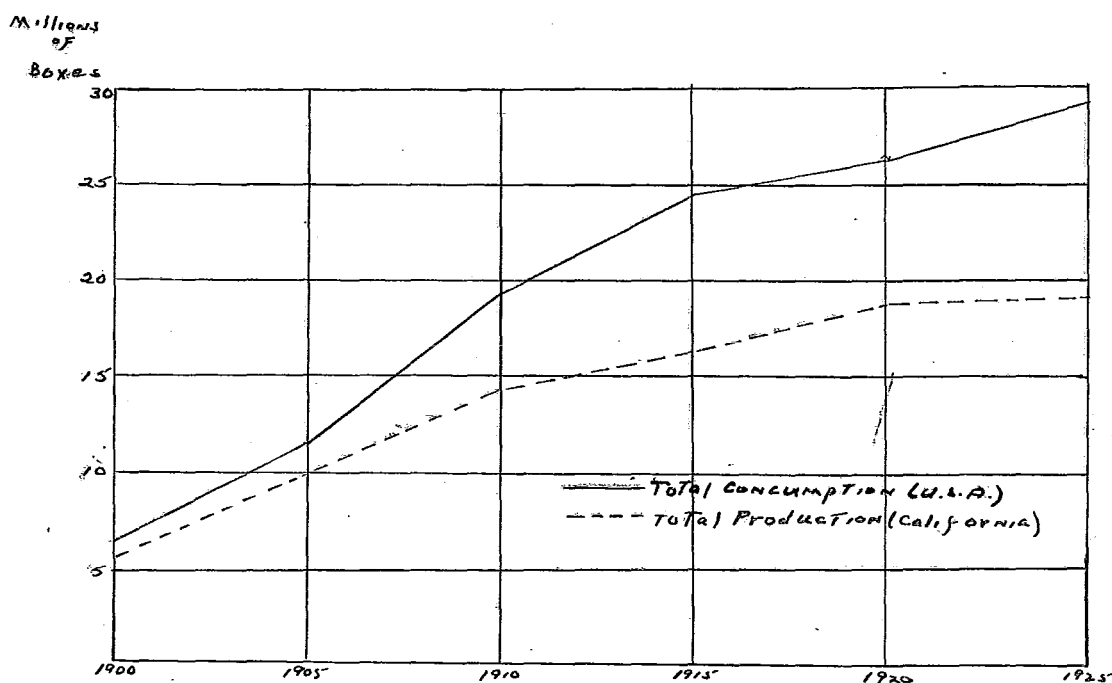
The California Orange Industry offers an apt illustration of how advertising may be utilized to promote and to stabilize an industry. (11) Prior to 1900, this industry was disorganized. Uncentralized, inefficient

marketing methods were used. The output was small because of a lack of consumer demand.

In 1900 the California Fruit Growers' Exchange was organized and a consumer advertising campaign was inaugurated. The campaign stressed the health aspect of oranges. A demand for the vitamins possessed by oranges was stimulated. As a result the total United States consumption of oranges trebled from 1900-1910 and the production of California oranges was doubled.

There is no doubt that advertising has been the prime cause of the great increase in the consumption of oranges since 1900. Vaile illustrates this increase by means of a chart:

**Increase in Orange Consumption
in the
United States 1900-1925 (12)**



Advertising has made no difference in the cost of the oranges to the consumer. (13)

Three net results of this advertising campaign are: (14)

1. The industry has grown in 35 years from shipments of 5,000 cars to over 50,000.
2. Both the quality and the regularity of the supply of oranges have been improved.
3. Supply costs and demand prices have remained practically constant for the past 15 years. (Up to 1927)

Advertising and Seasonal Fluctuations of Business.

The problem of seasonal unemployment is one of the major difficulties facing business today. (15) The underlying causes of seasonal slumps are, for the most part, climatic; certain commodities enjoy a naturally good sale in warm weather, others in cold weather. Other causes are style fluctuations, and the natural preferences for consumer buying at one season rather than another.

What part can advertising play in reducing seasonal unemployment? Some manufacturers have found that by aggressive advertising and selling methods, the customer can be led to purchase their products in dull seasons. (16) Off-season advertising naturally takes the form of pointing out advantages of the product which might otherwise be overlooked at such seasons. The California Fruit Growers'

Exchange has advertised in order to try to increase the sale of lemons in summer. Aunt Jemima pancakes, which had always been a winter dish, were advertised with success in the summer. The General Electric Company by advertising, "It's always Summer in Your Kitchen", is beginning to build up winter sales of refrigerators. (17)

Advertising and the Business Cycle.

Cyclical fluctuations in business have been attributed to various maladjustments in the economic order. It would be wrong to lay the blame of any business repercussion on any one cause. There are many factors which, when not functioning properly together, result in financial and industrial fluctuations.

One cause only will be considered here, viz. misplanned production. Manufacturers are often over-ambitious to produce goods and often overlook the demand factor. The market for a particular product becomes over-supplied with the result that prices fall, unless a state of monopoly exists, and the goods held off the market. Production is reduced and men are discharged. The demand factor must always be considered in relation to the supply. Advertising, through market research, can do much to aid producers to plan their production more accurately. Vaile points out several necessary conditions required of a company if advertising is to be used as a "tool" to partially control the course and

duration of cyclical movements; (18)

1. There must be a forecast of the purchasing power of consumers by groups.
2. Advertising must be directed towards the groups which are able to purchase the goods.
3. Sellers must be willing to check advertising before prosperity leads to over-expansion.
4. The different degrees of response of consumers to the advertising of different commodities must be better understood.

Vaile claims that the ideal task for advertising is the perfecting of market forecasts and the convincing of business men to follow the forecast. (19)

Does Advertising Pay the Producer?

The previous statements of this chapter answer this question in the affirmative. Advertising, judiciously used, does pay the producer largely because the increased demand for the product results in the economies of mass production.

In 1905 the Shredded Wheat Company moved 300,000 cases of their product at an advertising cost of \$1.00 per case. In 1925 this company was selling 4,000,000 cases at an advertising cost of 25¢ per case. (20)

The Georgia Power Co. spent \$835.00 in newspaper insertions. \$35,000 worth of gas ranges were sold

in a week. (21)

Radio sales slumped in 1930-31. The Philadelphia Storage Battery Co. was faced with the alternative of either going out of the radio business or drastically changing its price policy. It did the latter. The selling price of the radio was reduced below cost. An extensive advertising campaign was inaugurated. Within a single season Philco became the country's biggest selling radio. The tremendous volume brought production costs well below the selling price. (22)

When costs are actually lowered by advertising, if anyone may be said to "pay" for the advertising, it is the competitor who does not use it and whose costs become relatively high because of his obsolete methods of sale.

Calkins very ably summarizes the benefits of advertising to the producer:

"Without advertising, the manufacturer would not be able to benefit from quantity production, stable and assured future market, saving of time of his salesmen in selling, and economies in shipping because of well distributed volume." (23)

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Chapter 5

ECONOMICS OF CONSUMPTION

The topic, "Economics of Consumption", may at first seem to be irrelevant to the main subject of this thesis -- advertising. But one of the major problems to be mastered by the advertiser is that of maximum consumption of his goods. (1) Therefore, inasmuch as advertising is a device for stimulating and directing consumption of certain goods, the problem of consumption may well be considered. Although the question will be discussed from the American viewpoint, the Canadian economic situation is somewhat analogous to the American.

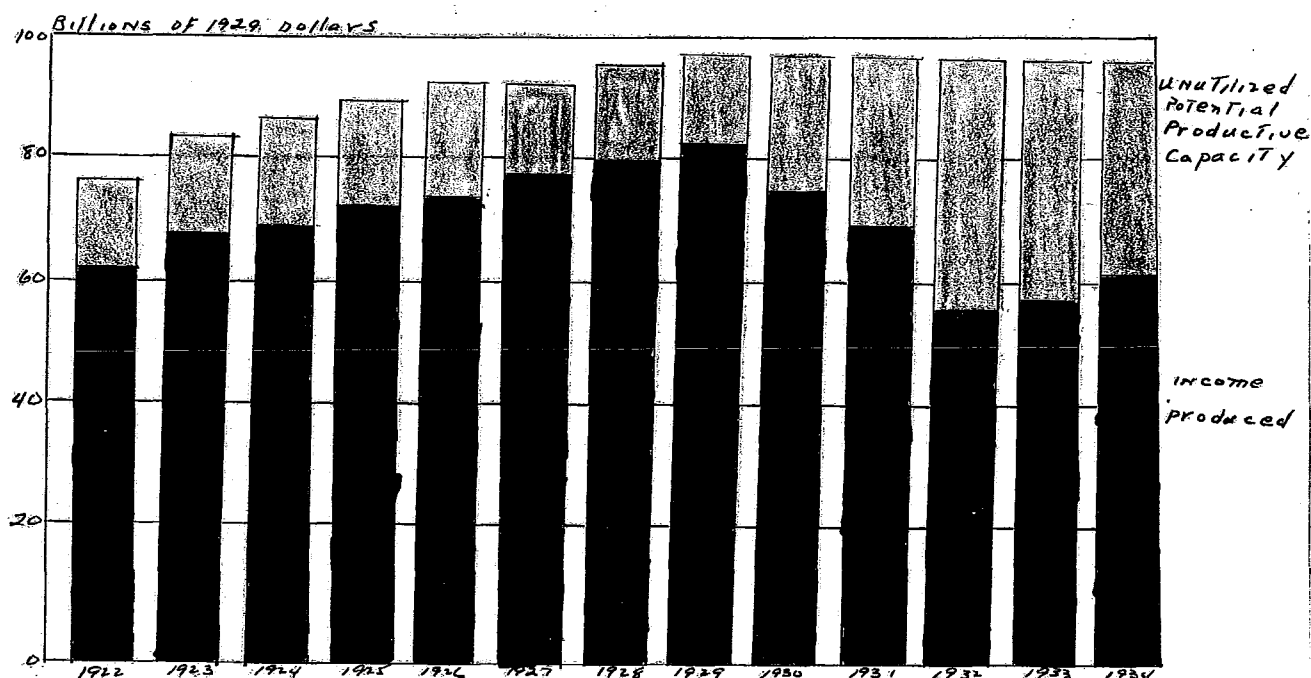
Because the present economic order contains the paradox of "poverty in the midst of plenty" either the production and/or the distributive forces must be functioning inefficiently. The Brookings Institute in 1929 conducted an investigation in order to discover the American ability to purchase commodities. The conclusion drawn was that during the period of highest economic development (1929) the consumptive requirements or needs of the American people were far from satisfied. (2) If the value of the total 1929 national production were divided equally among the entire United States population, each person would have received goods and services to an average value of \$665.00, on the basis of 1929 prices.

Considering that the average family consists of four people each family would have received at least \$2,500.00. Such a figure is accepted by the Brookings Institute as a minimum necessary to buy the necessities of life and to have a few of the minor luxuries. But in 1929 nearly six million families in the United States had incomes less than \$1,000.00 per annum; 12 million had incomes under \$1,500.00; over 16 million under \$2,000.00, and over 19 million or 71% of the total number of families had incomes less than \$2,500.00 per year. Hence, it is clear that the consumptive requirements, and especially the wants, of the masses of the American people were far from satisfied. (3)

The contention will be made later that the income of the workers is conditioned by the volume of production. According to the Bureau of Home Economics of the United States Department of Agriculture, the 1929 production would have to be increased approximately 75% to assure each American family a "reasonable standard" of living at 1929 prices. (4) If such estimates are reliable then in 1929 American industry only operated at 80% of capacity. In 1932, production was barely 50% of the possible output. As a general average, over the 14 year period from 1922 through 1935, the productive mechanism by means of which the American peoples' wants

are supplied may be said to have run at little more than 2/3 capacity. (5) Moulton, of the Brookings Institute, has constructed a graph to illustrate this productive situation. (6)

Productive Capacity and Actual Production, 1922 - 1934.
(1929 = 100)



The black area represents the aggregate value of the goods and services produced each year. The red section indicates the additional amounts which might have been produced had the productive resources been fully utilized.

This productive deficiency is not a result of a lack of raw materials, transport, shortage of fuel,

labor, or even of credit. Therefore, the possible cause of maladjustments in the productive and distributive mechanisms must be considered from the point of view of the consumers' purchasing power. If the data which have been presented are reasonably accurate, then it can be assumed that the economic system is working very imperfectly. That is, business is subject to severe fluctuations.

One fundamental reason for fluctuations in the economic system is found in the rate and volume of business and consumer spending. When prospects for profit and future income look bright, industry and the general public spend freely. But when future returns to capital and labor appear uncertain money and goods do not circulate so rapidly. In other words, a boom is the time when most people prefer to convert their money rapidly into goods, and a depression is a time when they prefer cash to more goods. (7) In 1932, for example, the people of the United States spent approximately half as much as in 1929.

Innumerable schemes have been proposed for maintaining or increasing the demand for goods during depressions. (8) Some of these are: low interest rates and easy credit; restriction of output; wage increases; the commodity dollar as expounded by Irving Fisher; reduction of wages and other costs; governmental expenditures

in order to counterbalance the decreased business spending; unemployment reserves; etc. Economists and governmental leaders differ as to what method or methods should be adopted. The reasoning followed in this chapter is along the lines laid down by Slichter of Harvard, and others. He claimed that under a profit system, the so-called problem of maintaining the volume of purchasing power during depressions is essentially the problem of starting an increase in the volume of business spending. (9)

"The problem of achieving stability under capitalism is a problem of stabilizing the prospects for profit, because the volume of consumer spending depends primarily upon the volume of business spending, and the volume of business spending depends primarily upon the prospects for profit." (10)

Under the present capitalistic system, the wheels of industry are kept turning only so long as there are prospects for profit. If any factors, such as rising costs of production, cause a reduction of profits below the minimum necessary to induce industrialists to maintain production, the industry affected will decrease spending. And as industry spends, so does the public, for consumers' incomes, apart from that portion derived from government spending and from consumers' credit, are dependent upon industry. The decline of consumer spending

is a consequence, and not a cause of a depression.

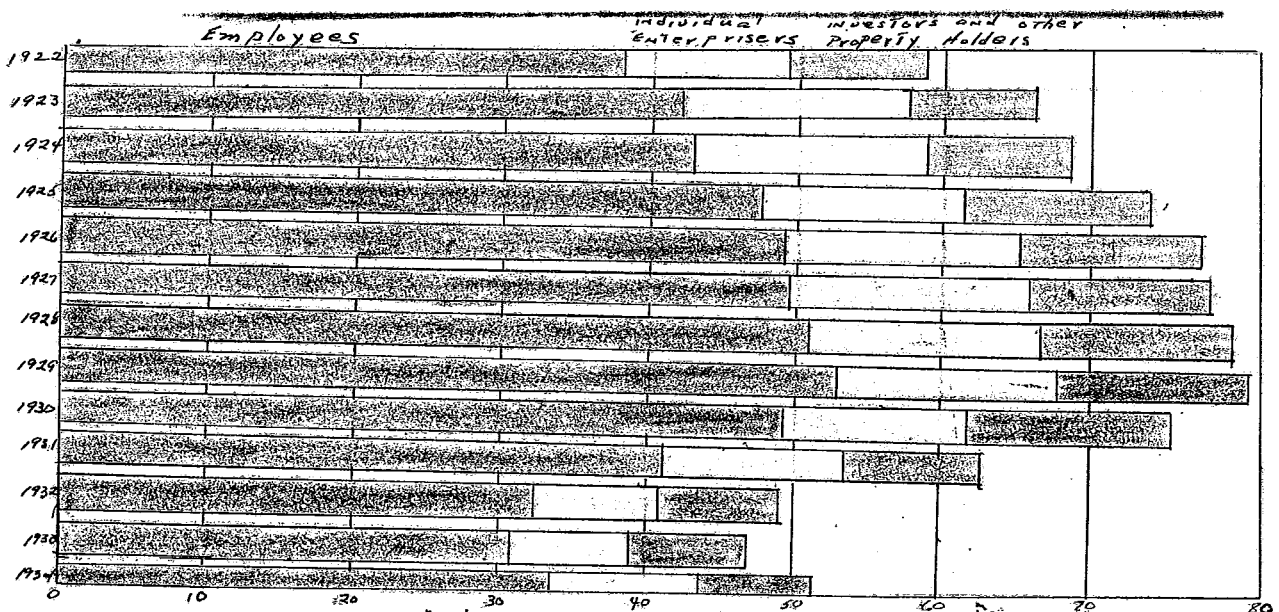
Herein lies the fallacy of supposing the depression can be cured merely by increasing consumer purchasing power. The National Recovery Act, passed by the Roosevelt Administration, tried to "prime the pump" by raising wages. According to Slichter, this device for the revival of business in America has not proven to be efficient. (11) With rising wages the cost of living has also increased. If all wages and salaries had been increased, no harm, and also no good, would have resulted. But there are many fixed income recipients such as bondholders, pensioners, annuitants and salaried employees, whose incomes do not rise with the rising prices. Costs of production rise with increased wages. Unless prices are increased the general rate of profit will diminish. Producers at the margin of productivity will be forced out of the market, or if they remain they will produce at a loss. It cannot be emphasized too frequently that unless industry today can clearly see future profits, production will not be maintained at the present level.

Somewhat analogous to raising wages is the suggestion of consumer credit advances. Louis I. Dublin, statistician of the Metropolitan Life Insurance Co., claims that any individual in an economic group, e.g. teacher, carpenter, etc., can earn more in a life-time

than is necessary to feed, clothe, and shelter himself and his family. (12) If this is true, then Dublin argues that installment buying can be made more efficient. An analysis of the earnings of each economic group could be made and potential capacities in relation to future earnings could be defined. With this information, it is conjectured that credit extending over 25 or 30 years could be given an individual. Apart from the tremendous administrative difficulties of such a system, a basic fallacy is that the effect of such credit advances would be the same as inflation. If the quantity theory of money is accepted as generally valid, then an increase in credit will result in an increase in prices and a consequent fall in the value of the monetary unit.

Business spending depends upon present profits and the prospects for future profits, i.e. upon the relationship between the prices which govern their costs and their incomes. As these prices have fluctuated, so has the national income. (13)

Division of the National Income U.S.-A. 1922 - 1934
(1929 = 100)



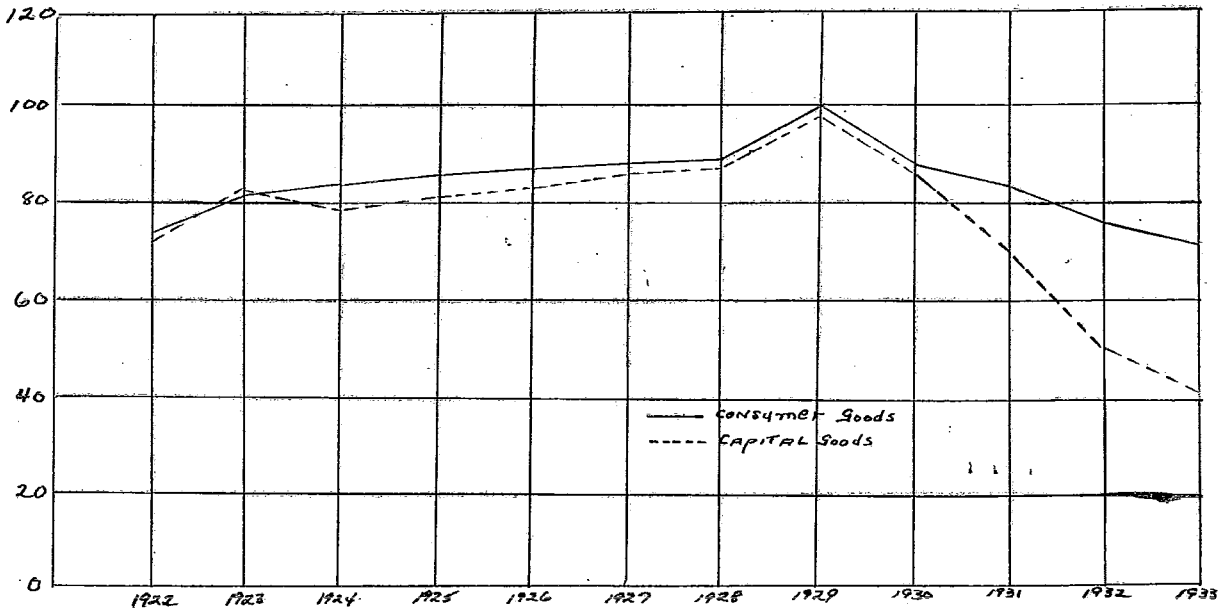
Employees include both wage and salaried workers. Individual enterprisers include farmers, merchants, professional firms etc., not organized on a corporate basis. The investor class includes all those who receive interest or dividends from funds or property which has been turned over to others for productive purposes.

During a depression, many managements build up reserves of cash or reduce bank loans by deferring expenditures on new plants, repairs to existing equipment, etc. During the years 1930-34 the railroads of the United States allowed over a billion dollars of deferred maintenance to accumulate. (14) Let business men, for any reason, experience increasing difficulty in discovering profitable ways of changing or enlarging operations, and the demand for many kinds of goods will instantly drop, particularly the demand for the materials and the labor used in repairing and maintaining plants and for building new plants. The production of capital goods has fluctuated more widely than has the production of consumer goods. (15)

Fluctuation in Production of Consumer and Capital Goods
in U.S.A., 1922 - 1933. (1929 = 100)

Refer to Graph, p. 61.

**Fluctuation in Production of Consumer and Capital Goods
in U.S.A., 1922 - 1933. (1929 = 100)**



If the demand for capital goods is to be increased and/or maintained during a depression, there must be a concurrent expansion in the demand for consumptive goods. And such a demand is dependent on industrial disbursements in the form of wages, salaries, dividends, etc.

The importance of the profit motive may be seen in the effect which it has on savings deposits in banks and other financial houses. Some of the very orthodox economic theorists maintain that when money is saved the result is not a decrease in purchasing power because savings are invested in industry. But such is not always

the case. Industrialists are always on the lookout for prospective profits. Therefore, they will not utilize all savings if profits cannot be made. If the outlook for business gain is not optimistic, savings will either seek foreign investments or will remain stagnant in the bank. The latter phenomenon was characteristic of Canada during the worst depression years. The banks were literally "bursting" with money. But there was little demand for it as production could not be carried on at a profitable level. Moulton attributes the failure of consumptive demand to equal in magnitude the volume of goods that might have been produced to the fact that a substantial portion of the income was not expended for consumptive goods, but was diverted to savings channels where much of it failed to be used productively. (16)

The data and the reasoning presented in this chapter, therefore, seems to warrant the conclusion that an explanation of the total volume of spending must be sought, not in spending by consumers but in spending by business enterprises. The demand of business enterprises for labor and commodities depends upon present and prospective profits.

A flexible wage rate and price structure undoubtedly would contribute much to help reduce the wide fluctuations in business. This flexibility should

extend throughout the whole economic structure. In Canada today agricultural wages and incomes are flexible while manufacturing wages are relatively rigid. Hence, in times of depression the farming class is unable to buy from the industrial class.

Stabilizing the prospects for profit would require, among other things, the introduction of considerable flexibility into costs. As wages are the principal cost of production in most large industries, it would require flexible wages.

Modern trade unionism offers a very real impediment in the way of obtaining a flexible wage rate. Unions would gain by accepting the principle of flexibility not only "because the instability of business and employment would be reduced, but because the wage level would rise more promptly as the productivity of labor increased."

(17) However, wage earners are very determined that the price of labor shall never fall, no matter whether other prices fall or not. Therefore, the psychological antipathy to reductions in money wages will have to be overcome.

There must be flexibility in other costs such as interest rates, etc. In other words, under a system dominated by the profit motive, complete elasticity in the price structure must exist.

Will this desired flexibility ever come?

Slichter is very pessimistic and in the light of the experience of the past few years he may be justified in his attitude. There seems to be only a slight chance that employers and employees will be willing to cooperate.

"With skilful control of investment and credit, with properly designed unemployment reserves, and with skilful management of government finances, depressions might possibly be prevented from becoming more severe than those of 1924 or 1927, but their complete elimination must be regarded as an idle dream -- at least so long as the production for profit is retained in the greater part of industry." (18)

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Chapter 6

HOW ADVERTISING BENEFITS THE CONSUMER

Is advertising a benefit to the public as a whole? Does it impose an unnecessary burden of cost on the ultimate consumers of goods becoming thereby an economic waste, or does it add to the sum of human happiness?

There is room for improvement in the ethical and professional aspects of advertising, but it is believed that the benefits both to the consumer and the producer which have resulted from advertising outweigh the disadvantages.

What proportion of the cost of advertising does the consumer pay? A.T. Falk estimates that in a prosperous year the national expenditure in the United States for advertising is about 2% of the total national income. That is, the annual advertising cost is about \$60.00 per family or less than 5¢ a day per person. (1) The advantages derived from this expenditure are worth far more to the general public than the cost.

Paul H. Fasanocht in an article entitled "Advertising and Higher Standards of Living" says:

"The high standards of living in America are the wonder of the world. Advertising has been a most important factor in educating American consumers to

this high standard of living." (2)

There is a direct relation between advertising and the standard of living. (3) This relationship may be illustrated by drawing a contrast between a kitchen of 50 years ago and one of modern times. (4) The characteristics of a kitchen prior to modern advertising and technical advancement were: an iron, soft-coal cooking stove; a green-painted iron pump in the wooden corner-sink for cold water; drinking water from the pump outside; hog lard instead of vegetable shortening; butter and milk hung down the well by a string to keep them cold; no scouring mops, wire brushes, or cleansing powders; baked beans an 18 hour job; oatmeal an overnight preparation; sugar, salt, crackers, rice, coffee, etc. bought in bulk, scooped out of open boxes or barrels, etc., etc. The kitchen became a miniature manufacturing plant before the food was ready for the family to eat.

How different a modern kitchen appears with all its conveniences -- electric or gas stoves which can be turned on in an instant; modern refrigeration; cold and hot water obtained by merely turning a tap; foods manufactured under scientific, clean conditions and prepared quickly and easily; electric dishwashers; automatic cooking mixers, etc., etc.

The amelioration in housekeeping that has come about in 50 years is a direct and indirect result of

advertising. The housewives did not demand modern appliances -- they knew nothing about them. The manufacturers created a demand for their products. Perhaps the motives underlying this demand creation were not altruistic. No doubt the producers were seeking profits but in so doing a public benefit was conferred. To the extent that advertising increases the efficiency of human labor by increasing the use of labor-saving devices it furnishes an objective measure of its economic effect. (5)

Advertising in a very large number of cases has resulted in monetary benefits for the public in general. These benefits may take the form of price reductions, increased wages, dividends etc. Large scale production is usually accompanied by many resultant economies. But mass production depends on an extensive demand for the products. The stimulation, and in some instances, the creation of this demand is a result of effective advertising. The resultant economies may be either kept in the company's reserves, or distributed as dividends, or in the form of increased wages, or in the form of lower prices. An examination of the trend of prices over the past 20 years will show that increased production, accompanied by expanding advertising budgets, has resulted in lower prices to the consumer. An automobile can be purchased today for less than \$1,000.00 which is

better in quality than the similar car which sold at a much higher figure twenty years ago.

Radios were considered a luxury at one time, but because of the great demand for them, which may be largely attributed to advertising, their price has been brought within the reach of the mass millions of America.

In some instances advertising has lowered prices by reducing unnecessary duplication. A stationery house once handled 500 lines of goods. It began to advertise and in 1928 the company did double the business and did it on 10 lines of goods. (6)

Innumerable examples could be cited in support of the contention that advertising has had a beneficial effect on prices to the consumers.

The convenient accessibility to the consumers of goods is one of the major benefits of advertising. (7) Millions of people in the United States and Canada consider any method by which time is saved as conferring a direct benefit to mankind. The consumer wants to be able to obtain what he wants when he wants it and he wishes to obtain it at a convenient place. Herein lies the real purpose of trade marks. The advertiser hopes to convince consumers to ask for his particular brand of goods and thereby induce the retailer to maintain a sufficient supply. Producers consider a name to be of such great value that they

will often spend huge sums of money in order to obtain a particular brand. The Maxwell House coffee habit of the American people was bought in 1928 for \$42,000,000 and the Jell-O habit in 1925 for \$35,000,000. (8) If a product is in great demand retailers all over the country will stock that product. Therefore, consumers may save much time and energy if they have been induced to buy a widely distributed product.

If the present generation dresses better and is healthier than past generations, advertising has undoubtedly been a contributing factor. Today, the well-dressed, well-groomed man may be an unskilled laborer. Mass production of clothes has resulted in inexpensive, fine-looking materials.

People are exhorted to take better care of themselves by manufacturers of fruits, soaps, etc. True, the advertiser desires that one keep well by using his product, but the general effect of advertising has been to stimulate within people a desire to "look their best." The Metropolitan and other Life Insurance Companies inform people as to proper methods of caring for their eyes, heart, etc.

The task of the housewife in preparing meals has been made more interesting because of the wide variety of recipes at her disposal. Dietitians, employed by large

food corporations such as H.J. Heinz, General Foods, etc., concoct new appetizing dishes, based on a particular product or products. General Electric often operate a travelling school of cooking instruction in order to advertise their home appliances. Such advertising cannot help but be beneficial to households throughout the country.

Advertised products give the consumer the satisfaction of pride which comes from the purchase and possession of a branded product that is known and respected by others. Some authors may claim that such a benefit is worthless; but sales of cars bearing the names Rolls-Royces, Packards, Lincolns, Cords, Cadillacs, etc. may be very largely attributable to the prestige these names carry. Prestige is very often a direct result of advertising.

Competitive advertising causes manufacturers to constantly try to add some improvement to their product, in order that such a product may stand out from among the other competing goods. The automobile tire companies have improved quality in an effort to merit the patronage of car owners. Vast research departments such as General Motors Research Division are maintained by large corporations for the express purpose of discovering new uses and improvements for the goods.

There are many educational and social benefits which would not be as available to the public were it not for advertising. The daily newspaper which is considered a necessity by millions of readers could not be printed for such a few cents cost to the reader if business men

did not advertise. Likewise, magazines which, perhaps, cost 25¢ each or more to produce, would not sell for 5¢ if there were no paid publicity. Under the present economic system, radio programs are dependent upon sponsors. Very few people will claim that the radio, even though commercially exploited, does not confer benefits upon mankind.

As a direct result of advertising, books have been more widely read. For example, the vast circulation of Dale Carnegie's book, "How to Win Friends and Influence People" may be attributed to an extensive advertising campaign put on by the publishers.

Perhaps G.B. Hotchkiss, of New York University, was perfectly correct when he made the statement:

"Some day, perhaps, our American citizens will become readers and students of economics as they have become readers of history and biography, but it will not be until advertising has informed them of some good book on economics and educated them to appreciate the benefits they may derive from reading it." (9)

In conclusion advertising may be said to raise the general standard of living of the masses of the people by:

1. Introducing modern household appliances

which reduce the irksomeness of labor.

2. Lowering prices to the ultimate consumer.
3. Making goods more accessible, thus saving the buyer much time.
4. Enabling the masses to dress better.
5. Educating the public on questions of health.
6. Introducing new recipes to the housewife.
7. Catering to the instincts of pride which are traits of human nature.
8. Inducing manufacturers to continually seek improvements in their products.
9. Giving the public educational and social benefits.

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Chapter 7

ETHICS OF ADVERTISING. CONCLUSIONS.

"Consumption is the sole end and purpose of production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer."

Thus spoke Adam Smith one century and a half ago. He went on to remark that the interests of the consumer are nearly always sacrificed to those of the producer. (1)

The consumer has presented a problem ever since he gave up self-sufficiency and began to barter goods. Classical and Medieval writers were obsessed with the idea of a just price. Sellers were regarded as unethical if they charged more for their goods than this just price.

At the time of Adam Smith, an open, competitive market was assumed, in which the competition between buyers and sellers maintained the market value of goods at a "normal" figure.

However, conditions of free, unhampered competition do not exist today. There are many reasons for this situation but three causes are of paramount importance -- the influence of trade unions on prices, and administrative price action on the part of business corporations and governments.

Unionization of employees tends to cause the price level to become rigid. Wages are maintained under all conditions; therefore, prices are not altered in accordance with the general fluctuations of business.

The tendency in Canada and the United States today may, and perhaps is, towards a concentration in the control of wealth by a few corporations. The modern holding company with its pyramiding of the control of wealth in one parent company has been one cause of a rigid price level. Prices are not completely fixed by the "bidding" of the market, but rather by administrative action. Postal rates and railway rates afford two excellent illustrations of the result of administrative price action. It is probably very true to say that the fewer the enterprises in an industry, the less flexible will be the prices. (2)

There existed a direct personal relationship between the buyer and the seller before the era of large-scale production. Goods were sold as individual units which enabled the buyer to carefully inspect each product before making a purchase. The personal reputation of the seller was at stake.

Today such a procedure is impossible. Mass production with its selling agent advertising, has resulted in huge quantities of goods being thrown on the market.

No longer is it possible for the consumer to examine with minute care the quality of, for example, a can of corn. The integrity of the manufacturer must be relied upon. And, in many cases, such a trait of character is not present. According to the Royal Commission on Price Spreads, many practices of manufacturers and merchandisers were disclosed which are contrary to the best interests of the consumer. These practices include false and misleading advertising, false marking and labeling, adulteration of products, short weighting, deceptive packaging, substitution of cheaper or inferior goods, harmful or poisonous ingredients, and exorbitant prices for branded products which are basically simple and inexpensive. (3)

One of the most serious indictments levelled against advertising is that of intentional misrepresentation and misleading implication. (4) The advertiser of products he knows to be harmful, is as much to blame as the man who produces them. A little hyperbolic language is only natural in praising a product, but direct misrepresentation is inexcusable. Many examples of such malpractices may be found in such books as, "100,000,000 Guinea Pigs", "Your Money's Worth", "Counterfeit", written by such men as Arthur Kallett, F.J. Schlink, Stuart Chase. Let two illustrations suffice this thesis;

Soap can do only one thing -- cleanse the skin.

Yet every soap advertisement promises its users some alluring benefits which are impossible of realization.

When tested by Consumers' Research, Yardley's Old English Lavender Soap, costing 35¢ per cake was found to be slightly inferior to a cake of cheaper soap costing 6¢. (5)

None of the proprietary mouth washes or gargles are useful or at all effective in the ways claimed for them in advertisements; (6)

If advertising is to be utilized for the betterment of mankind, its standards must be continuously raised. There are many factors which are seeking to "reform" advertising.

Many of the better publications have contributed to this reform movement by establishing a measure of control over their advertisements. *Nestrums* were the first advertisements to receive attention. In 1892 the *Ladies' Home Journal* announced that it would print no more medical advertising. Its editor, Edward A. Bok began to print chemical analyses of various widely advertised preparations. (7)

This pioneering in better advertising led the way for the Federal Food and Drugs Act passed in 1906. The label requirements of the Act gave the public more confidence in container foods.

A "model" statute, designed to discourage

fraud in advertising, was drawn up in 1911 by "Printers' Ink." (8)

The Better Business Bureau was formed by a group of Cleveland Advertising men in 1913. In 1929 there were 43 B.B.B.'s. organized solely for the prevention of fraud and deception in advertising. (9)

Such methods of reform as mentioned in the preceding paragraphs have, in many cases, proven ineffective, but, at least, they represent a movement towards a better deal for the consumer in advertising.

Consumers' Research Inc., under such men as F.J. Schlink, Stuart Chase, Arthur Kallett, has in recent years been endeavoring to educate the ultimate consumer on the problems of buying goods. This organization is a non-profit, non-commercial research and educational institution, which studies and reports on goods and services from the point of view of their selection, purchase, and use by the ultimate consumer. (10)

The United States and the Canadian Governments both maintain research organizations. The Canadian Government established a National Research Council. But this Council was not created primarily in the interests of the consumer but rather in the interests of the government and the producer. Likewise, the American Bureau of Standards functions as an aid to government

buying.

There is undoubtedly need for an organization, probably under government direction, which would aid the consumer in his buying. Macy's department store in New York City contains some 350,000 articles from which one can choose. In a city the size of Milwaukee the consumer must choose from among some 250 kinds of tooth-brushes, 100 kinds of washing machines, 160 kinds of fountain pens, 50 motors, etc. (11)

The ultimate consumer has no means of knowing whether such terms as "silk", "washable silk", "fast dye", "pre-shrunk", etc., mean what they seem to mean or something else. A Consumers' Bureau of Standards could do much to clarify nomenclature. Standardization does not mean that all articles must of necessity be uniform. By standardizing the quality of silk, one does not standardize the pattern according to which the dress must be made. (12) The real problem is the establishment of specifications in which the consumer's as well as the producer's point of view is recognized. (13)

One of the committees of the Royal Commission on Price Spreads under Dr. H.M. Tory strongly urged a certain amount of standardization, especially among the textile goods. (14)

This committee enumerated several purposes of

standardization; (15)

1. To aid accuracy in industry through uniform and correct measures.
2. To assist commerce in regulation of the size of containers, etc.
3. To promote justice in daily trade through systematic inspection and regulation.
4. To promote truthful branding and advertising by suitable standards and methods of test.
5. To promote precision and avoid waste in science and industry by affording quality standards by which materials may be made, sold, and tested.
6. To promote safety, efficiency and convenience in the maintenance and operation of such utilities.

There is no doubt that adequate machinery should be set up in order to aid consumer purchasing problems.

As a result of the memoranda submitted by Dr. H.M. Tory, the Royal Commission on Price Spreads recommended the creation of a Consumer Commodity Standards Board as a section of a Federal Trade and Industry Commission, one of whose members would be the chairman of the Board. (16) There would be also on this Board, representatives of the National Research Council, the Department of Trade and Commerce, and other governmental departments having to do with the administration of the

existing acts relating to commodity standards and qualities. In its work the Board would meet with representatives of industry and of the consumer. It would be the Board's duty to coordinate the technical work done and to advise on all matters relating to standards. It would also be charged with the establishment and enforcement of all consumer standards. The powers of the National Research Council would be extended to include the analysis and testing of consumer goods and the preparation of consumer standards and specifications. If such a service is to be of any use to the consumer, any evidence of his exploitation should be made public. Thus, the Commission recommends that the Board in its work be permitted to publish the names of products and manufacturers.

Advertising is a necessary, and, if properly controlled, a beneficial business force. But it depends on the confidence of the public and any betrayal of that confidence weakens the effect of honest advertising. (17) Business should realize that in the long run "its only source of prosperity is the public, which buys and pays; that on its treatment of that public depends its success, and that a permanent customer who comes back is a greater asset than the profit on the first sale." (18)

The change from a "public be damned" policy to a "public be served" policy has been proven to be shrewd business strategy. The old idea that in a bargain one party must lose has given way to the idea that both parties must be satisfied. The Golden Rule is not only good ethics but also good business. In the long run, the interests of the individual who means to live by the practice of advertising will be served best by the use of appeals that are socially, morally, and esthetically defensible.

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