JUNE 1962

BUSINESS REVIEW

Advertising and Charlie Brown

Auto Dealers Are Happy

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BUSINESS REVIEW

is produced in the Department of Research. Lawrence C. Murdoch, Jr., was primarily responsible for the article "Advertising and Charlie Brown" and J. Allan Irvine for "Auto Dealers Are Happy." The authors will be glad to receive comments on their articles.

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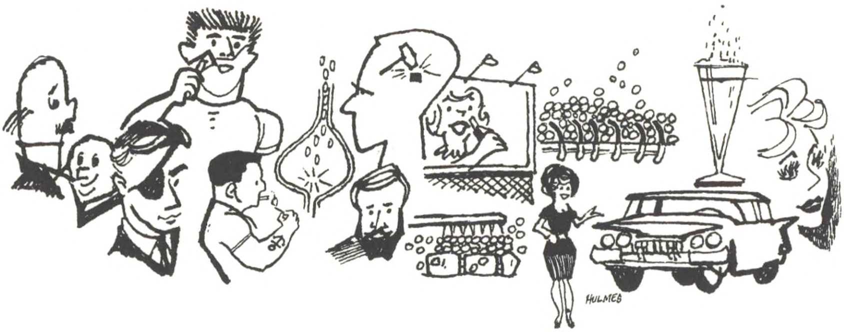
ADVERTISING AND CHARLIE BROWN



Charlie Brown is a little boy in the comic strip "Peanuts." He also is appearing in a series of automobile ads. It is altogether fitting that Charlie Brown should be in advertising; in fact, he might well be a symbol for the entire advertising industry.

Charlie Brown and advertising both feel a strong need for self-justification and recognition which neither seems to get. Both are complex and often misunderstood.

Charlie's comic strip friends, Lucy, Patty, Schroeder, and even Snoopy the dog, are forever picking on him. At the present time, advertising, too, is being severely scolded on many fronts.

Charlie is more than a tragi-comic little boy. There is a little of him in all of us. Maybe Charlie is something of a whipping boy for everybody's faults, weaknesses, and frustrations.

Advertising, too, considers itself a whipping boy. Some of the criticism of advertising is said to be actually meant for the economic system for which advertising is a principal spokesman.

In this article, we shall examine advertising's relations with its principal critics—the eggheads, the general public, the ad industry itself, the economists, Government, and businessmen. From these various conflicts we hope to draw a picture of the advertising industry and how it operates. But first, in order to understand the present situation better, it might be helpful to see how advertising developed into a $12 billion industry.

THE LONG ROAD LEADING TO MADISON AVENUE

Street criers, the Hugh Downs of yesteryear, were common in ancient Athens, Rome, Carthage, and other pre-Christian civilizations on the shores of the Mediterranean. Early merchants also used signs to call attention to themselves. Because most of the population could not read, the signs usually carried symbols—a loaf of bread for a baker, a pair of sandals for a cobbler, and so on. From that rudimentary beginning, the modern system of trademarks eventually developed.

Most early attempts at advertising were of the information-only variety. They merely notified buyers that the seller existed and offered certain goods. Today, some people suggest a return to this type of advertising.

Advertising changed little from Greek and Roman times through the Middle Ages. Criers and signs were still the principal media in the Elizabethan era, and ads were still informational. We can imagine Sir Walter sponsoring a

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crier who said, "Behold, we have a new product. It's a leaf. You grind it up and set fire to it."

The development of the printing press and the spread of literacy brought new, more effective ways for sellers to communicate with buyers. Posters, handbills, and eventually newspapers carried advertisers' messages to vastly greater audiences.

The character of advertising began to change in the 18th century. No longer content merely to inform, advertising began to exaggerate and persuade. In 1759, Doctor Samuel Johnson observed, "Advertisements are now so numerous that they are very negligently perused and it therefore is necessary to gain attention by magnificence of promise and by eloquence, sometimes sublime and sometimes ridiculous."

The use of advertising continued to grow throughout the remainder of the 18th century and all of the 19th. Newspapers were the principal media but magazines developed rapidly during the latter part of the period.

The last few decades of the Victorian era were the heyday of patent medicine promotion. "Sure cures" for gout, rheumatism, deafness, ague, neuralgia, and rupture were widely advertised. Dr. Case's Liver Remedy and Blood Purifier would, it was claimed, "supplant the doctor entirely."

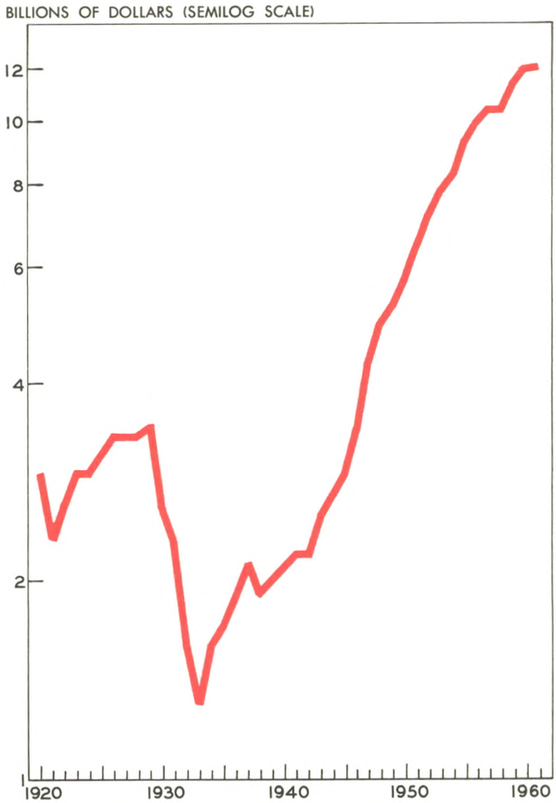
By 1900, American advertising expenditures had grown to an estimated $500 million. This was 2.9 per cent of gross national product that year.

In the 1920's advertising "discovered" four major pestilences—halitosis, athlete's foot, pink tooth brush, and B.O. If advertising created the fear of these scourges, it also offered a grateful public ways to stamp them out forever.

Over the "Jazz Age," the volume of advertising increased from $2.2 billion in 1919 to $3.4 billion in 1929. Advertising expenditures remained over 3 per cent of gross national product for the decade.

WHAT THEY PAY TO ADVERTISE

Total advertising expenditures.



Some experts explain the historical growth of advertising by what we shall call "the surplus theory." It goes like this: When the supply of goods and services exceeds demand—when there is a surplus—competition between producers and sellers increases. As a result, advertising expenditures should increase both as a competitive weapon and as a means of increasing over-all demand. The theory looked good in the 1920's.

During the 1930's, the surplus theory of advertising seemed to weaken. Certainly there was a surplus of goods and services; if anything, com-

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petition among sellers was keener than ever before. But instead of increasing advertising expenditures, manufacturers and retailers cut back sharply. Expenditures plunged from $3.4 billion in 1929 to $1.3 billion in 1933. On a percentage basis this was greater than the decline in industrial production or in gross national product.

During World War II, civilian goods were scarce in relation to demand. Advertising expenditures, however, rose from $2.1 billion in 1940 to $2.9 billion in 1945. Part of the reason business spent more on advertising during the war may have been to keep consumer demand simmering on a back burner. Moreover, business may have felt that the money spent on advertising would otherwise be taxed away as excess profits.

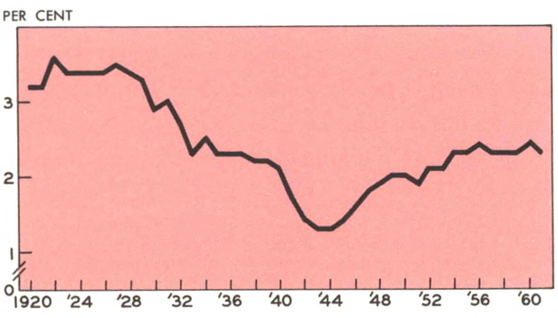
Advertising skyrocketed after the war was over. Even though goods were still relatively scarce, advertising outlays doubled from 1945 to 1950.

Advertising expenditures continued to increase during the 1950's. From 1950 to 1961, they expanded 100 per cent to $12 billion. Much of this growth took place before 1957, however. Since then, expenditures have been relatively stable as a percentage of gross national product. This seems somewhat strange, for 1957 is the date many historians give as the end of postwar shortages. Since 1957 the ability to produce many goods seems to have exceeded the desire and ability to consume them. One might think this would call for big increases in advertising.

Apparently, many businessmen do not always gauge advertising expenditures by the pressure of competition and the need to stimulate demand. If they did, expenditures over the past three decades might have been different. Under the surplus theory, advertising outlays might have been higher in the 1930's and lower during the war than they actually were. They might have grown more slowly in the late 1940's and early 1950's and faster in the late 1950's and early 1960's than they actually did. In spite of the present buyer's market, advertising expenditures now are only 2.3 per cent of gross national product compared with 2.9 per cent in 1900 when modern advertising was in its infancy.

ADVERTISING'S SHARE OF G. N. P.

Advertising expenditures as a percent of Gross National Product.



THE EGGHEAD VS. ADVERTISING

The intellectual was throwing his polysyllabic barbs at advertising long before the general public and businessmen began their barrages. Intellectuals, real and self-styled, take advertising to task on many grounds. We shall mention several representative criticisms and some rebuttals and counter-arguments from advertising.

"Too much advertising is in bad taste"

A college professor is watching television—his favorite newscast or documentary, let's say. The program is interrupted by a jingle telling how to prevent the decay of human teeth. A few minutes later there is a true-to-life picture of the area where the arm joins the body. Finally, as a pill

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is parading through a cutaway picture of the digestive system, the professor rises and clicks off his set. Advertising often offends the intellectual's delicate sensibilities. It is too frantic, too strident, and often is in poor taste, he claims.

Advertising men agree that some ads are in bad taste. They point out, however, that most ads are not aimed at intellectuals but at the general public. Successful advertising must be pitched at approximately the cultural level of its target group. What repulses the professor may be appealing to the bank clerk or truck driver.

We have heard it said that the intellectual dislikes mass advertising because he really disapproves of the cultural level of American life as a whole—the popular songs, dance crazes, movies, murder mysteries, housing developments, hamburgers, night baseball, and large automobiles. The intellectual is discouraged for he feels that advertising, with its great power to persuade, is degrading rather than raising the level of popular taste and culture.

"Manipulation is morally wrong"

Thomas P. Coffey goes further than most when he calls advertising a parasite living on the secret miseries, doubts, and weaknesses of mankind. But there is widespread disapproval of what is said to be the manipulation of such deep psychological drives as guilt, hostility, narcissism, and anxiety in order to sell goods.

Advertising has been using psychological appeals for a long time. Doctor Samuel Johnson said two hundred years ago, "I cannot but propose as a moral question to these masters of the public ear [advertising men], whether they do not sometimes play too wantonly with our passions." Freudian appeals—or the advertising man's conception of them—were widely used in the 1920's and 1930's. Only recently, however, has there been widespread criticism of psychological advertising. Much of the concern dates from the publication of Vance Packard's sensational book *The Hidden Persuaders* in the mid-1950's. Worried about the power to manipulate masses, the intellectual often says "Advertising should be restricted to just stating facts about a product."

When so confronted with this, advertising usually depreciates its power. Advertising can't sway consumers against their will; it can't sell inferior products; it can't sell at all but only informs.

The main argument against limiting advertising to giving only facts is that many people do not base buying decisions on rational motives. If advertising were strictly informational, it would not be efficient. When people really buy an automobile because, deep down, they feel it gives them status, or when women really buy a household cleaner because they consider its trademark character a sex symbol, effective advertising should subtly recognize these motives. This does no harm in the vast majority of cases and it means more results for the advertising dollar, the argument goes.

"Advertising is a threat to the freedom of the press"

Advertisers' money supports radio and television and bears a large percentage of the cost of newspapers and magazines. A common fear is that this gives advertisers an influence over the editorial content of the media.

The advertising industry says, on the other hand, that its influence over media is minimal. Advertisers, it is claimed, couldn't exert editorial control even if they wanted to. The media are interested in maximizing their audiences. This increases revenue, because advertising rates are

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based, at least in part, on the number of consumers reached. The magazine, newspaper, or broadcaster, therefore, will publish or air what they believe their audience wants. If this alienates certain advertisers, there are always plenty of others, or so it is said.

THE GENERAL PUBLIC VS. ADVERTISING

Paraphrasing an old saying about the caretaker's daughter, we wonder who makes the image-maker's image while the image-maker is out making images? Advertising and Charlie Brown are both vitally concerned with what people think about them and in neither case are they satisfied.

According to surveys and expert opinion, the general public's image of advertising has deteriorated recently. E. C. Bursk, editor of the *Harvard Business Review,* writes, ". . . the general public is disenchanted with advertising. . . . The average consumer is not only ready for but even somewhat pleased with advertising's recent spankings."

"The huckster"

Perhaps some of the adverse feeling about advertising is traceable to a widely held impression of the ad man himself. There is a tendency to stereotype him as a hard-driving, hard-playing, overpaid, somewhat unscrupulous character. He typically takes two hours for lunch and always has a brace of martinis, in spite of the fact they are bad for his ulcers. The ad man in the image has a colonial farm house in Connecticut and an apartment in Manhattan. Beautiful women throw themselves at his feet wherever he goes. The public may subconsciously envy the ad man but consciously it disapproves of him.

Advertising men themselves admit they often work under pressure but as a group claim they are not much different from other legitimate businessmen. Advertising is trying hard to bury this unfavorable image but unfortunately books and movies keep exhuming it.

To tell the truth

The public suspects that many ads are misleading or untruthful. This feeling has existed, to some extent, since the first thinking man realized that only one product can be "best" and that only one price can be the "lowest in town." The suspicion of fraud, however, was recently amplified by the quiz show and disc jockey scandals.

Advertisers maintain most ads today are essentially truthful. They give a true impression considering the legal right for a seller to boast a bit about his product. E. C. Bursk says that if "Americans are not bright enough to know instinctively that the invisible shield that protects teeth from decay . . . is an understandable device for putting across a point tellingly rather than a deliberate attempt to defraud or hoodwink, then they had better not be allowed in the market without a nurse."

In a recent year, the Federal Trade Commission, issued only 270 complaints against deceptive practices in labeling as well as advertising. Ad men point out that it's more than the FTC that keeps advertisers honest. The consumer has great power to retaliate against fraudulent advertising. Once bilked or badly misled, the consumer may tell his friends and together they may boycott the product. Since most advertisers depend heavily on repeat business, they do not want to risk the consumer's displeasure.

Ho-hum

The general public, it is reported, considers many ads dull, monotonous, and boring. If this

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is a true report, there can be no rebuttal—only an explanation.

The advertising industry expanded rapidly during the postwar period. Total expenditures increased many times; the number of ads to be prepared increased just as fast. Over 100 million ads must be created each year and there just aren't enough topnotch writers to make every one good. But, the industry says, the general quality of ads has been improving steadily.

Excesses

Advertising tries too hard. This is a common complaint and it reflects considerable irritation. Many people swear that the sound volume goes up when the TV commercial comes on. Ad men insist that it doesn't but they haven't convinced everybody.

Numerous people feel there are too many ads. It is estimated that the average television viewer is interrupted 90 times by advertisements in one day. One station break alone may harbor four or more ads. It also can be irritating to leaf through 30 or more pages of ads in a magazine before the stories begin. And, of course, many people complain about the number of billboards that now line the road over the hill and through the woods to grandmother's house.

These public criticisms, if as prevalent as often believed, strike at the effectiveness of advertising. If consumers feel that much advertising is misleading, or excessive, or in bad taste, they are going to respond less and less to appeals for purchasing action.

Maybe part of the trouble is that consumers have changed significantly in recent years and advertising has not. Consumers today are far more sophisticated, more complex and complicated. They have new ideas about status. They are better educated, more cultured, and have greatly improved tastes. Possibly too much advertising today is still trying to sell the consumer of ten years ago.

ADVERTISING VS. ADVERTISING

Considerable controversy exists within the industry about advertising techniques. The debates have gained new importance from the allegations that consumers are becoming more immune to present advertising appeals.

Motivation research?

A basic tenet of motivation research is that people buy for psychological as well as economic reasons. Interviews in depth by trained psychologists attempt to discover the *real* reasons behind specific purchasing decisions. Once these reasons are known, they are supposed to be exploited by advertising.

As we have indicated, the intellectual objects to motivation research on moralistic grounds. Many advertising men, on the other hand, criticize the technique on practical grounds. Motivation research, they say, suggests that everyone is alike and that everyone reacts in similar ways. This is just not true. Each person has vastly different buying motives which, furthermore, are constantly changing. In short, the criticism goes, MR may be a good idea in principle but it doesn't work in practice. The fact that two different MR men often come up with two entirely different buying motives for the same product demonstrates that the technique has not yet developed to the point of practicality.

Hard sell or soft sell?

Rosser Reeves, Chairman of the Ted Bates

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Agency, advocates finding one successful selling appeal—"Break the hot cigarette habit"—and driving it home by constant repetition. This is the most efficient way to move many types of goods, say Reeves and other adherents of the "hard sell." Repetition keeps the sponsor's message always fresh in the consumer's mind.

The "soft sell" school tries to create a brand image and give a product a sharply defined personality. The use of wit and humor is considered appropriate, as is gentle spoofing of the product or the sponsor. Bert and Harry Piel, the Hathaway shirt man, and Commander Whitehead are among the soft-sell hall-of-famers.

It is easy to conclude that advertising would be less criticized if all ads were of the soft-sell variety. A repetitive jingle or slogan can be more irritating than the sophisticated Schweppes-man. The real point, however, is which technique is best suited to a specific product or market in the long run.

"Eat popcorn"

Subliminal advertising involves flashing a message on a television or movie screen so fast the conscious mind cannot perceive it. But the message supposedly sinks into the subconscious and impels action.

So far as we know, the technique has been tested only once. "Eat popcorn" was flashed on a movie screen at repeated intervals. The conductor of the test says it was successful. Although nobody remembered seeing the message, the sale of popcorn was said to have risen dramatically.

The great amount of publicity this one foray into subliminal advertising received may have caused the industry more trouble than ten unfavorable books. There is widespread fear of what could be done by unscrupulous advertisers and politicians with this power of "thought control." The mere existence of the subliminal technique—proved or unproved—has tended to reinforce the feeling about advertising that "it will stoop to anything to sell goods."

THE ECONOMIST VS. ADVERTISING

Economics is largely a matter of deciding how to use the limited resources at our disposal. As Professor Paul Samuelson says, we must find answers to the basic economic questions, *what* shall be produced, *how* and *for whom?*

Bees answer these questions by instinct and many primitive societies do so by custom. In communist countries, the State makes the basic decisions about the use of resources. Here in America, we rely on a complicated system of supply and demand, wages and prices, free markets and Government restrictions. The job of the economist is to study and report the workings of this system.

Economists are questioning types by nature and they frequently argue with ad men about the role of advertising in the allocation of resources. One of the economist's frequent criticisms is that . . .

"Advertising results in a misuse of resources"

Within certain limits, our economic system is based on the principle that resources should be used to satisfy the wants of consumers. Consumers express these wants when they cast their spending votes in the market place. Generally speaking, if consumers demand a specific product, resources are used to make that product.

Economists point out that the public must be reasonably well-informed about the true merits of the various products available in order for the

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system to function efficiently. Advertising fails to provide enough information and warps what it does give, are frequent charges.

The industry's defenders say that advertising does provide much information that helps consumers make wise purchasing decisions. Advertising informs about the introduction of new products and the relative merits of old ones. If advertising does not stick to facts alone, it does not often distort them, it is claimed. Certainly today's consumer is better informed with the present type of advertising than he would be without it.

Stepping out of their traditional roles as observers, some economists express the opinion that advertising creates useless or undesirable wants at the expense of things for which there is a greater social need. When advertising makes consumers want and buy automobiles with tail fins, tobacco, and movie-star swimming pools, there is less money [fewer resources] available to improve public hospitals, build better schools, or combat juvenile delinquency.

Advertising cannot create desires and wants, spokesmen often maintain. It merely recognizes that certain wants exist. Advertising did not create the desire for automobiles or washing machines. People have always wanted more efficient transportation and ways to reduce drudgery. All advertising did was publicize the means to satisfy these basic wants.

Taking the offensive, ad men question the right and ability of the economist to say that resources are not being used properly. It is merely a matter of subjective opinion that America should have more schools and fewer swimming pools. The economist is only making a value judgment when he claims we need better hospitals and fewer fancy automobiles. Indeed, the nation is devoting ever-increasing sums to education, health, and other public programs, the ad man might point out.

Certain economists are using advertising as a whipping boy, defenders have claimed. In reality, some economists are dissatisfied with America's whole system for allocating resources. They want to further limit the role of consumer choice, it is said, and expand the role of Government. In other words, they want to transfer more resources from private use to public use "for the good of society."

"Advertising is a waste"

Advertising is $12 billion down the drain, some say. Why not abolish advertising and give the money to the consumer in the form of lower prices?

This argument appears in many forms but they all seem to state or imply the premise that advertising does *not* increase the total demand for goods and services. In other words, advertising adds no real value to the economy. All it does is shift consumer spending from lightly advertised products to heavily advertised products.

Martin Mayer states in his book, *Madison Avenue, U.S.A.*, that advertising does in fact increase the value of many products. Take the case of a bar of soap. It gets a person clean and people are willing to pay a certain price for cleanliness. Now suppose advertising convinces women that this soap will also make their skin beautiful and, as a result, they may get engaged, married, and live happily ever after. Women will be willing to pay more for this wonderful soap and the difference between its value as a cleanser and its value as a cupid was created by advertising.

Some might not approve of creating this kind of value but that is beside the economic point. The value is real nonetheless, according to

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Mayer. The extra money spent creates real income and real jobs and adds to total demand.

Advertising, it is pointed out, also affects total demand indirectly by raising the level of consumer aspirations. Advertising whets the public's appetite for things they don't have and shows people what they can get if they work hard. Advertising's effect on aspirations is cited as one reason why America developed faster than European countries during the first half of the 20th century.

"Advertising helps create monopoly"

Monopoly means that one seller controls the entire output of a product. In such a position, the seller can set any price the traffic will bear. Pure competition is the opposite of monopoly. Here many sellers offer exactly the same product and they compete strictly on the basis of price.

Advertising attempts to make a product unique in the minds of the consumer. Only one company sells a coffee "good to the last drop"; only one has a cigarette that "tastes good like a cigarette should." Once a product is differentiated from the herd, it does not have to compete by price alone. An established brand can give a firm a sense of security such as a blanket gives to Charlie's little friend, Linus. A well-advertised brand can help protect its seller from "tooth and nail" competition. Slightly differentiated products still may compete on a price basis to an important degree, and there still may be many sellers. But some economists claim advertising does much more.

National advertising, it is claimed, can build up an overwhelming brand loyalty. It takes time and great amounts of money but, once achieved, such loyalty may drive small competitors out of business and prevent newcomers from entering the field. Small and new firms just can't afford to spend similar amounts on advertising. The high cost and the cumulative effect of national advertising may reduce an industry to a few giant firms, it is said.

We decided to look into the relationship between advertising and industrial concentration. The problem was to determine if heavily advertised products tend to be produced by industries that are dominated by a few large firms. We selected some fourscore common products—from soft drinks to shoes, from paint to pottery—and determined advertising expenditures as a percentage of sales for each. Next, we measured industrial concentration for each product by the percentage of total shipments accounted for by the four largest firms. In about half the cases we had to rely on estimates.

The final step was to determine if a correlation existed between high advertising expenditures and high concentration. We fed the data into a computer which whirred, and blinked, and gave the verdict, "No significant correlation."

This does not mean that advertising may not move a product along the scale towards monopoly. It only indicates that heavy advertising is not necessarily associated with those products dominated by only four producers. Obviously, many factors besides advertising can affect industrial concentration.

Advertising's effect on prices

One of the most common economic justifications for advertising is the claim that it reduces the prices of many products. This blessing is based on the assumption that a large firm can produce goods more cheaply than a small one. Advertising, it is said, creates mass markets which permit the economies of mass production. Mass production spreads overhead expenses over more output and reduces total costs per unit.

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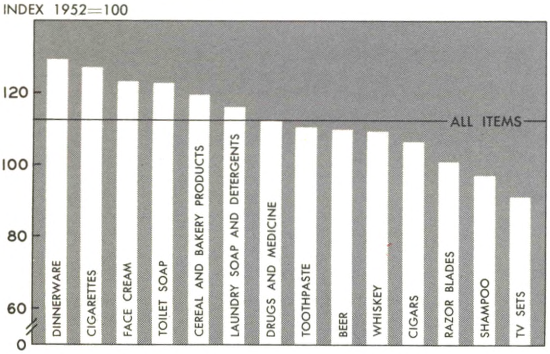
The critical economist might admit that mass production can reduce unit costs, but advertising itself is a cost and it is by no means certain to increase output enough to offset its own addition to overhead. He also could point out that if advertising does not increase total demand but only shifts demand to heavily advertised products, the cost reduction achieved by such producers might be offset by increases among the light advertisers who lose customers. Furthermore, what insures that a manufacturer achieving cost reductions through advertising will pass them on to consumers as lower prices?

Businessmen themselves are split about the effects of advertising on prices. According to a recent survey of 2,400 businessmen taken by the *Harvard Business Review,* about 50 per cent of the respondents thought that advertising lowered prices; the remainder disagreed or expressed no opinion.

A PICTURE OF PRICES

Consumer price index for selected heavily advertised products—1961 averages.



Another argument is that advertising reduces costs by stabilizing demand. Advertising boosts sales in slow seasons and thus permits more efficient use of the manufacturer's plant and equipment. This may be so for certain industries but it is hard to prove for the economy as a whole. Advertising tends to fluctuate more widely than gross national product and retail sales. In the past three recessions, the percentage decline in advertising expenditures was greater than in both these indicators.

The preceding chart shows the consumer price index for selected heavily advertised products.[1] About one-half of the products rose more than the over-all cost of living, and one-half rose less. This is fragmentary evidence, at best. Perhaps it only shows that statistics cannot prove the effect of advertising on prices one way or another.

GOVERNMENT VS. ADVERTISING

Mention Government and ad men often become as nervous as a long-tailed cat in a room full of rocking chairs. Advertising is afraid that Government regulation of their industry will increase. Norman Strouse, President of the J. Walter Thompson Agency, warned of a "gathering assault" on advertising which would "threaten its very existence."

This is more than a Charlie Brown persecution complex. Ad men see a number of things to indicate Government is becoming increasingly critical of their industry. A recent appropriation bill ruled out advertising expenditures as a legitimate cost of doing business for defense contractors. Bills have been introduced in Congress to give the Federal Trade Commission expanded power to issue injunctions to stop ads of which they do not approve.

President Kennedy himself has proposed a new bureau to protect the consumer. In a special message to Congress he said, "Consumer choice is influenced by mass advertising utilizing highly

[1] We could not use as many products as we did in our concentration study because of problems of comparability.

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developed arts of persuasion. The consumer . . . usually doesn't know . . . whether one prepared food has more nutritional value than another, whether the performance of a product will in fact meet his needs, or whether the 'large economy size' is really a bargain."

A direct tax on advertising recently was proposed by nine states and at least four cities. Most advertising men fear a direct tax more than any other type of regulation. The power to tax, of course, is the power to destroy. Advertising expenditures now may be counted as an ordinary cost of doing business but the direct-tax idea has some precedent. In 1765, a stamp tax of two shillings was placed on each advertisement, and during the Civil War advertising was taxed.

Perhaps television has been a major factor in the increasingly hostile climate for advertising. Not that TV ads are inferior to those in other media, but television has made people more aware of advertising. You can skim by printed ads without reading them, and many people listen to radio with only half an ear. Television ads, on the other hand, insinuate themselves on a more or less captive audience. As a result, whatever is wrong with advertising is more obvious and noticeable on the TV screen than in other media.

The advertising industry is trying to counter the threat of increased Government regulation in a number of ways. Advertising is "speaking for itself" in a series of radio ads that try to show what a good boy the industry is. Another main line of defense is "we are effectively cleaning our own house." Advertising has embarked on a number of self-regulatory programs in the past two years.

Can advertising police itself well enough to forestall further Government regulation? Were it not for the fact that the phrase now touches a sore spot, we would say, "That is the $64,000 question."

BUSINESSMEN VS. ADVERTISING

Now, even advertising's best friends are telling it. Businessmen, the direct supporters of advertising, have become increasingly critical of the industry.

Much of the controversy between advertising and the hand that feeds it centers around two broad questions. How much should the businessman spend for advertising, and how should advertising agencies be compensated for their services?

Too much? Too little?

Printer's Ink, an advertising trade publication, recently ran on its cover an open letter to business management. The magazine accused management of "profound business irresponsibility," among other things. The letter seemed to boil down to the charge that business was not spending enough on advertising.

On the other hand, the *Harvard Business Review* survey, already mentioned, indicated that half of the businessmen who expressed an opinion felt too much money is being spent on advertisement.

The controversy about how much to spend on advertising has sharpened in recent years because business in general has become more competitive and profits have been squeezed. In this environment businessmen have begun to re-examine their advertising budgets with a critical eye.

In some cases they don't like what they see. Perhaps they see for their own firm what the following chart shows for all corporations. It indicates that sales per advertising dollar have

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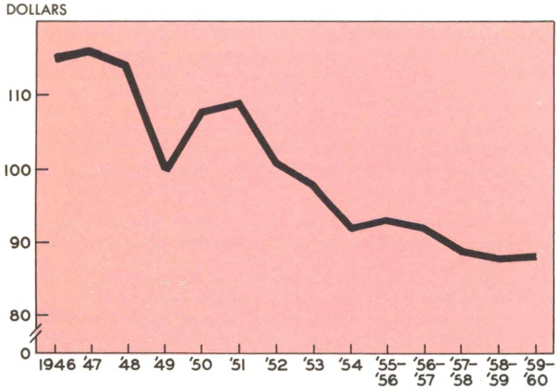
IS ADVERTISING LESS EFFECTIVE?

Sales per dollar of advertising for all corporations—based on Department of Internal Revenue data.



been declining during much of the postwar period. The possibility that advertising is generating fewer sales per dollar spent has cost considerable business confidence. As a result, there is a tendency to limit ad budgets.

Advertising spokesmen are quick to counter. Consumers are sluggish these days and sales are harder to make, they say. Advertising's job is more difficult now and that's one reason sales per ad dollar have decreased. This is the time to increase ad budgets to spur demand rather than to cut them to reduce costs.

This argument is based on the assumption that advertising can increase sales. The economist wonders for the country as a whole. The businessman wonders for his individual firm. In most cases, there is no real answer because it is virtually impossible to measure the results of advertising precisely.

In addition to advertising, the product and its performance, packaging, personal selling, price, promotion, point of purchase displays, and publicity all affect sales. The contribution of advertising cannot be isolated except where there is a coupon order blank to clip and send in. The decline in sales per ad dollar may not mean that advertising is becoming less effective, the industry could reason. Sales could be influenced by any number of other factors.

Progress is being made toward measuring the results of advertising, however. New techniques involve setting specific goals for advertising—not sales goals but communications goals. Advertising's job is defined to implant certain ideas in the consumer's mind with a degree of permanence. Under this concept, the measuring task—still a difficult one—is to determine whether the ideas have been implanted and whether they stick.

The ability to measure advertising results, if ever achieved, would be a boon to the industry; advertising would become more of an exact science, less of a vague art. The ad man will be able to show the businessman precisely what advertising can do for him and at what cost. Some critics are concerned, of course, that the ability to measure results would increase advertising's power to manipulate consumers.

Fifteen per cent under fire

Agencies work for the advertiser but often are paid by the media—radio, TV, magazines, and newspapers. The advertiser pays the full rate for the space or time and in many cases the media give a 15 per cent commission to the agency.[2] The media pay commissions only to recognized agencies and not to advertisers themselves. Since the advertiser would have to pay full price even if he prepared and placed the ads himself, there is a strong incentive to use agencies.[3]

Agencies sometimes charge additional fees. When photography, engraving, printing, art work and other non-commissionable services are purchased, a certain percentage may be tacked

[2] Direct mail, outdoor ads, and newspaper space purchased by certain retailers are not subject to commission.

[3] Agencies handle about $5 billion worth of advertising including most national and regional campaigns. Much of the remaining $7 billion is retail advertising placed directly by local merchants.

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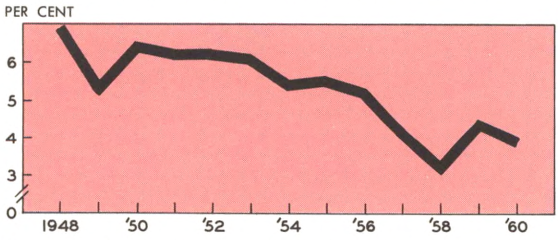
on the advertiser's bill. Small, unprofitable accounts often are charged a regular fee over and above any media commissions involved. On the average, about one-third of agency income is said to come from fees.

Many businessmen are questioning the commission system. The Frey Report, an extensive study made several years ago, indicated about half the advertising managers of large corporations felt that the commission system was less than satisfactory.

Big advertisers often object to the inflexibility of the 15 per cent commission. They figure they would be in a strong bargaining position if agency compensation were open to negotiation because it is commonly believed that agencies make the highest profits on the larger accounts. Since small advertisers often pay a regular fee in addition to the 15 per cent commission, they are, in effect, already operating under a negotiated system.

WORKING MORE NOW AND PROFITING LESS

Ad agency profits as a percentage of gross income.



Agency opinion is split on the commission question. Some favor it, partly out of preference for the *status quo*. The commission has more than nostalgic appeal, however. It enables agencies to compete on the basis of ideas and creativity rather than price. It could be said one discount prevents other discounts. In addition, some agencies say they object to disclosing confidential information to clients which might be necessary under a cost-plus compensation scheme. Finally, since the commission is paid only to agencies, the system helps prevent do-it-yourself advertising. (A few companies do prepare their own ads and place them through a "house agency" but the practice is not yet prevalent.)

Numerous agencies, including some which would vote to keep the commission system are far from happy with it. They feel the system prevents agencies from receiving adequate compensation for the extra work they do, and thus is responsible for the pinch on their profits.

Agency profits as a percentage of gross income have been declining during the postwar period. In 1948, profits were almost 7 per cent of gross income; in 1960, they were under 4 per cent. Since 1956, profits of incorporated agencies declined relative to the profits of all corporations and other service corporations.

Agencies claim two principal things are responsible for the decline in their profits. The first is television. Producing television commercials demands many specialists—music directors, casting experts, costume designers, animation artists, and all sorts of technical experts. Existing compensation arrangements do not adequately cover the cost of television, agencies claim.

The other major drain on profits is a rapid expansion in collateral services. Numerous agencies have gone far beyond the mere preparation and placement of ads; they have become complete marketing specialists. They advise on overall sales strategy from how to design an eye-catching package to when to run a big six-for-a-dollar sale. They have expanded greatly their market research activities and they now offer public relations and publicity services. Of course, agencies can and do charge extra fees for these collateral services, but because of com-

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petition, they often hesitate to charge adequately.

A number of agencies are dissatisfied with the 15 per cent commission but they can't seem to think of anything better to take its place. With 4,500 agencies at each other's throat, with advertisers changing agencies as a debutante changes partners at a June dance, they feel the business is competitive enough and are reluctant to add more price competition.

CONCLUSION

Ever since the 18th century, industry has been mechanizing itself. Manufacturers have been replacing human labor with more efficient machines in order to produce more goods more cheaply.

To move this swelling flood of machine-produced goods to mass markets, selling also had to mechanize. Sellers, too, began using machines to increase their efficiency. The printing press, the radio transmitter, and television replaced individual salesmen, just as the factory assembly line replaced hand craftsmen.

Advertising, it could be said, is simply automated selling. There always were good individual salesmen and bad ones, righteous and unscrupulous ones. Some salesmen had impeccable taste, others had poor taste. Some were bright and clever, others dull and boring. Salesmen have long tried to persuade, to create desires, to use psychology, and to play upon the *real* reasons why people buy. Is it surprising, therefore, that the automated salesman—advertising—should be and do all those things?

Modern advertising is an integral part of our present economic system. It helps move $550 billion worth of goods and services from producers to consumers. It speeds the introduction of new products and often provides valuable shopping information. By emphasizing product differences, real or contrived, advertising reduces the need for sellers to compete on the basis of price alone. This function is in harmony with our over-all economy which has been evolving away from the pole of pure price competition for a generation and more. Large unions, large corporations, administered prices, collective bargaining, and expanded Government programs as well as advertising have played important roles in this evolution.

Advertising should be with us for some time. And so should its critics. In the first place, automation has put advertising's good and bad points in the limelight as never before. Since many of us are naturally adverse to anybody who is trying to sell something, the bad points are likely to receive considerable attention.

In the second place, there are no easy answers to much of the criticism. No real life Ben Casey or Marshal Dillon is likely to come along with the wisdom to solve advertising's problems overnight.

Maybe the conflict between advertising as an art and automation as a science is a reason for the frustration advertising shares with Charlie Brown.

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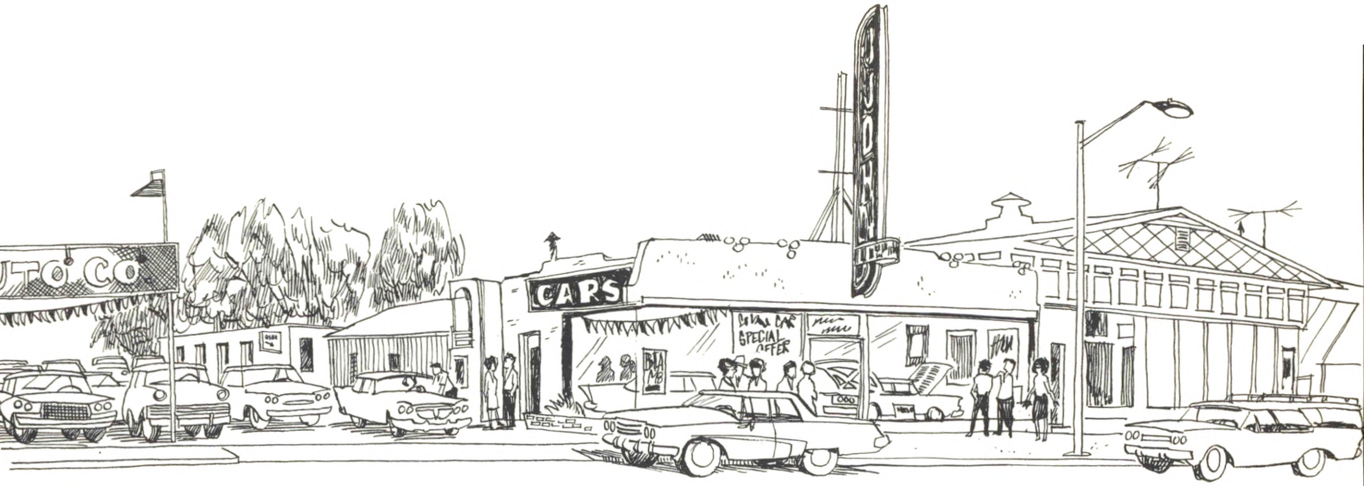

AUTO DEALERS ARE HAPPY

In recent talks with automobile dealers operating in the Philadelphia Federal Reserve District, we uncovered a much greater degree of optimism than we have heard expressed hereabouts in many a day. All of them were quick to explain why automobiles are having such a good year. First of all, improvement in the over-all economic climate has encouraged more liberal spending patterns. And, secondly, sales are increasing because in the 1962-model lineup more cars are meeting enthusiastic public acceptance. Several of them, in fact, have become "hot" numbers on the spring market.

New-car sales up more than seasonally

As one local dealer so aptly put it: "Our showroom traffic has increased sharply to include fewer 'tire kickers' and many more buyers." Almost everyone we talked with said first-quarter sales were considerably better than anyone had anticipated. Even through the normally slow weeks of midwinter, sales were exceeding expectations. Most dealers experienced something of a lull as income-tax time and the spring holiday approached. Settling up with Uncle Sam and preoccupation with a bit of finery for the Easter Parade took their toll of automobile sales, but not for long. Early May brought not only a resumption of buying but it set a pace that has not been matched for several years.

Luxury models lead

Dealers tell us that the buyer's choice in new cars has been undergoing a significant change. And it's a change for the better from the dealer's standpoint. Whether it's a full-sized automobile, an intermediate model, or a compact, today's customer seems to be looking for something more than just transportation. Automatic transmission, power steering, power brakes, in fact just about all the options manufacturers offer are said to be receiving a much greater share of attention. People seem to have the money, are willing to spend it for what strikes their fancy. Growing interest in sports models, with bucket seats, consoles, and four-speed transmission, is further evidence that automobile buyers are pretty well off the "economy kick" that sold more stripped-down models a year or so ago.

A smaller share for compacts

Compacts still hold a very important place in this year's automobile market and a lot of them have been written into the order books this

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spring. But dealers say they see something of a trend back to the full-sized car and an even more pronounced shift to the intermediate models introduced into the 1962 lines. These cars seem to fill a definite need for so many buyers, having caught their fancy from the very start. According to the dealers, the intermediates in some areas are stealing the show from the high and low ends of the line. Interest in the very small imports—except the Volkswagen—is said to be definitely on the wane in this area.

Market remains highly competitive

Any dealer will tell you the competition is still tough. Maybe not so rough as it was, but car buyers have educated themselves to be value-wise and they are not about to forget anything they have learned. They all expect a "deal" and they will shop and shop hard until they can come up with one. But there is this difference compared with a year or so ago—no dealers are selling cars at cost. They don't have to get rid of them and most times that extra ounce of selling effort pays off. The size of the cash discount to the prospective customer with no car to trade seems to be today's biggest hurdle. If a trade-in is involved, a good used-car market permits the new-car dealer a greater amount of leeway.

Profit margins better

When we asked dealers about their profit margins most of them appeared somewhat happier than they had been in a long time. Nationally, the situation has shown considerable improvement and this seems to have carried through to the local level. As a number of dealers pointed out, not only was sales volume helping, but customer preferences for accessories and frequently for de luxe or custom-line models gave them more "elbow room" in working out a deal that would sell a car and still leave them a reasonable profit. They expect this trend to continue.

Inventories on the light side

Dealers in our area say their new-car inventories are small numerically and especially low in terms of days' supply. In some makes, shortages of popular models have cropped up repeatedly. This has given rise to more than the usual amount of swapping among dealers and a great deal of reordering from the factory. In many cases it seems that the top of the line—custom-class cars—is where the most persistent shortages occur. It is easy to see why dealers say keeping a balanced inventory is an impossibility. The best they can do with all the models, body styles, color combinations, and optional equipment is just try to out-guess the public, while hoping for a fast factory delivery when they need one. Our dealers expect no problem when clean-up time comes at the end of this model run. They say the wind-up will be fast and they are expecting the new models earlier than ever this year.

Credit terms no problem

Another reflection of a brighter economic picture—or at least a feeling of greater security—is the story so many dealers tell us about down payments in excess of the traditional one-third. It seems more people want greater equity in their car when they sign the sales papers. Offers of 50 per cent down are not really unusual and some say 40 per cent is common. For now, anyway, the day of haggling over a one-third down payment has passed. And, dealers note some tendency for buyers to finance for shorter maturities. Some say that in recent months a

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larger proportion of their sales has been straight cash transactions. In any case, we found no evidence of car buyers attempting to bargain over terms. Collections, say the dealers, are excellent and their experience with repossessions has been virtually nil.

Used-car market strong

Active demand for used cars at firm prices continues to give good support to the new-car market in this area. Some places report supplies of late models are so short that new-car dealers with their own lots are buying up whatever they can find at a reasonable price for the profits on resale. This situation is particularly true in cities like York, Lancaster, Harrisburg, and Wilmington. Even in Philadelphia, the supply of clean, late models is not large. But in this city, such cars compete more with new compacts. In many cases, dealers say prices are so close that customer preference frequently swings to the new compact carrying the manufacturer's one-year warranty. Older models are not in oversupply and prices are holding up well.

Outlook is bright

Most of the dealers we talked with look for a good automobile market into the summer. They expect to sell new cars near present high rates for at least another month. With inventories staying low relative to sales, profits should hold up right to the end of this model run and as they see it now, the clean-up this year should be quick and "painless." Dealers are a bit less optimistic regarding the used-car market. Used-car inventories are expected to build up as the fast pace of new-car sales continues. Thus, prices may soften somewhat. Even so, no real difficulties comparable to those of some other recent years are anticipated.

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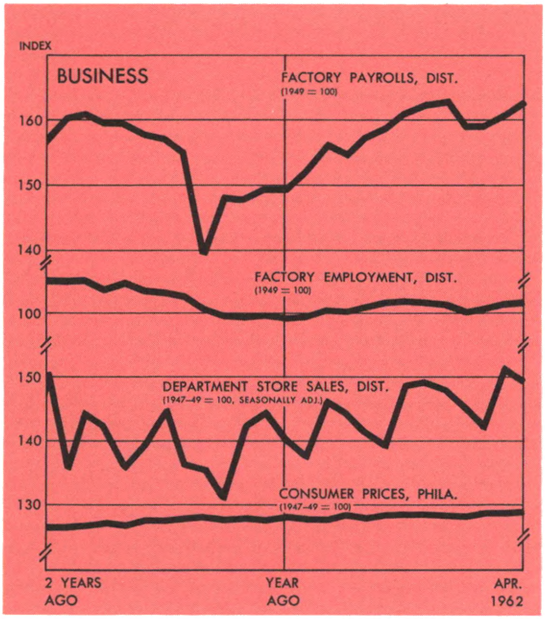
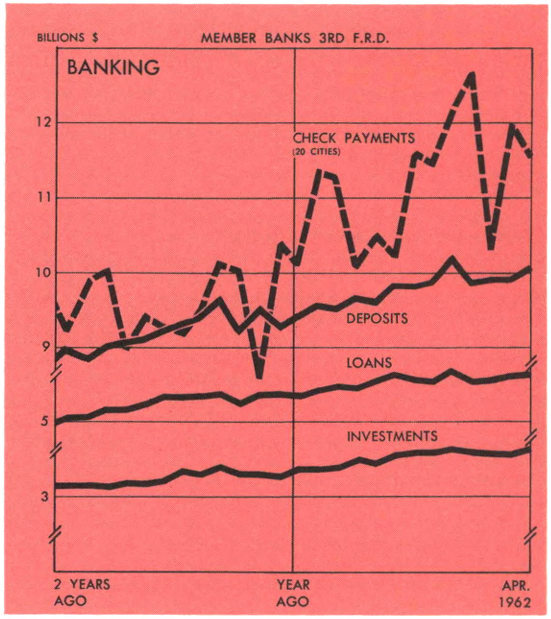
FOR THE RECORD...





SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Apr. 1962 from		4 mos. 1962 from year ago	Apr. 1962 from		4 mos. 1962 from year ago
	mo. ago	year ago		mo. ago	year ago	
MANUFACTURING						
Production	....	....	....	0	+10	+12
Electric power consumed	− 1	+12	+14	....	....	....
Man-hours, total*	+ 1	+ 6	+ 4	....	....	....
Employment, total	0	+ 3	+ 2	0	+ 4	+ 4
Wage income*	+ 1	+ 9	+ 8	....	....	....
CONSTRUCTION**	−19	+32	+28	− 3	+17	+18
COAL PRODUCTION	− 2	+20	+16	− 2	+11	+13
TRADE***						
Department store sales	− 1	+ 6	+ 6	+ 1	+ 5	+ 6
Department store stocks	− 1	+ 6	....	− 1	+ 6	....
BANKING						
(All member banks)						
Deposits	+ 2	+ 6	+ 6	+ 1	+ 8	+ 8
Loans	0	+ 4	+ 4	+ 1	+ 8	+ 7
Investments	+ 2	+ 9	+ 9	+ 1	+10	+11
U.S. Govt. securities	+ 2	+11	+10	0	+ 6	+ 8
Other	+ 1	+ 4	+ 4	+ 3	+22	+18
Check payments	− 4†	+14†	+19†	− 4	+17	+12
PRICES						
Wholesale	....	....	....	0	0	0
Consumer	0‡	+ 1‡	+ 1‡	0	+ 1	+ 1

*Production workers only.
**Value of contracts.
***Adjusted for seasonal variation.

†20 Cities
‡Philadelphia

LOCAL CHANGES	Factory*				Department Store†				Check Payments	
	Employment		Payrolls		Sales		Stocks			
	Per cent change Apr. 1962 from		Per cent change Apr. 1962 from		Per cent change Apr. 1962 from		Per cent change Apr. 1962 from		Per cent change Apr. 1962 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley	0	+ 5	0	+15	....	....	....	....	+ 3	+18
Harrisburg	0	− 1	0	+ 4	....	....	....	....	− 2	+ 1
Lancaster	0	+ 4	+ 1	+13	− 1	+12	− 2	+ 3	− 3	+12
Philadelphia	0	+ 2	+ 1	+ 6	+ 1	+ 7	− 1	+ 9	− 4	+12
Reading	− 1	+ 6	0	+13	− 5	+ 6	− 1	+ 7	− 4	+11
Scranton	− 1	+ 1	+ 1	+10	− 3	+ 5	+ 2	+ 2	− 5	+15
Trenton	+ 1	+ 5	+ 2	+13	− 5	− 5	− 6	− 6	+ 4	− 2
Wilkes-Barre	0	0	+ 1	+10	+ 1	+14	− 1	0	− 6	+12
Wilmington	+ 4	+ 3	+ 5	+10	− 4	+10	+ 4	+12	− 5	+49
York	0	0	− 1	+ 4	− 3	+ 4	− 2	+ 4	− 7	+ 1

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.

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