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A Survey of New Food Product Introductions and Slotting Allowances in the New England Marketplace from a Food Broker's Perspective

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A very high percentage of new food-product introductions fail in the marketplace. Many food retailers feel that the cost burden of the new product introductions has been unfairly leveled on them; this has led to the development of slotting allowances, whereby food retailers sometimes charge manufacturers to stock new products in stores. The Federal Trade Commission is investigating the role as well as the value of slotting allowances in new food-product introductions. However, much more data is needed in order to arrive at a decision that will satisfy all parties in the distribution channel. This study examines new food-product introductions and slotting allowances from the perspective of a food broker.

The introduction of a new product often poses a problem for U. S. retailers because of insufficient shelf space. The USDA's Economic Research Service estimates that about 320,000 packaged food products are available to American consumers. However, a typical supermarket can accommodate only 50,000 products, including non-food items. Retailers sometimes charge a manufacturer fees or slotting allowances to stock new products. Retailers justify slotting allowances as a way to protect their profits if a new product that takes up scarce shelf space does not sell well (*Frozen Food Digest* 2000).

In 2001, 1677 new food products were introduced by the top 20 companies, the highest figure since the mid-1990s (New Product News). More significant, however, was the percentage of this figure that was new product introductions. In 2001, the top food companies introduced 17.4% of all new product introductions, the largest percentage in over a decade (*The Food Institute Report* 2002).

The practice of manufacturers' paying fees to retailers for the display and sale of their products has become common. In the grocery retail business,

these fees are called slotting allowances, because they are made in return for a slot on the shelf (Aalberts and Jennings 1999). Although slotting allowances emerged over 10 years ago, there is still no consensus on what purpose the fees serve (Sullivan 1997).

Some sources suggest that retailers are increasingly demanding slotting allowances for new product introductions (Desiraju 2001). Because of this, considerable controversy and debate surrounds the practice of slotting allowances. Regulators have yet to agree on public policy toward these practices; at least one Federal antitrust agency suggests that slotting fees may be competitive, another has conducted investigations into these practices, and still another suggests banning them altogether (Gundlach and Bloom 1998).

In early 2000, the Federal Trade Commission upped the pressure on marketers and their retailing partners by announcing plans for a workshop on May 31 and June 1 of that year to study slotting allowances and better assess competitive concerns. As expected, marketers and retailers squared off at the workshop on slotting allowances (*The Food Institute Report* 2000).

Traditionally, grocers have contended that slotting fees—which can come as discounts, payments, or advertising fees—help offset the high costs of bringing in new products (Teinowitz 2000). At the workshop, one major retailer pointed out that higher retail food prices would be the likely result if supermarkets stopped receiving slotting allowances from suppliers. Another retailer claimed that the slotting allowances allow them to defray the real cost of bringing a product to the shelves (Ramey 2000).

The retail industry says slotting allowances are needed to cover the cost of new product introductions because more than 80% of new products fail. However, small regional manufacturers worry that slotting allowances—which amount to \$1 billion per year—will rise unchecked by local competition. Therefore, big budget companies will perhaps be

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able to out-bid smaller competitors and get more space until small players are squeezed out and prices go up (Hollingsworth 2000).

The Federal Trade Commission has said it will take a look at slotting allowances again, but this time it may not rely only on volunteers (Ghitelman 2001). In 2001 the staff of the Federal Trade Commission issued a report based on findings from a workshop seated to gain information about slotting allowances. The quick answer from the FTC perspective is that exclusive dealing arrangements warrant careful review while pay-to-stay fees and slotting allowances should be examined (Merrefield 2001). The FTC's report on slotting allowances calls for more research before guidelines are issued. There are no guidelines at present (Blalock 2001).

Survey Design and Data Collection

Several years ago, *Supermarket Business* conducted the first modern slotting-allowance survey of the three major segments of the food industry: retailers, wholesalers, and manufacturers. They did not ask food brokers, since food brokers are really agents of the manufacturers they represent (Partch 1990). Using some of the questions from the original *Supermarket Business* survey, this study developed a questionnaire primarily to give food brokers the opportunity to agree or disagree with each question. However, the food-broker population was limited to the New England marketplace.

A mail questionnaire was sent to the presidents of the top 93 New England food brokers. The survey was mailed in May 2002, and the results were tabulated in June of the same year. The list of food brokers was obtained from the annual *Yankee Food Services—Top Lists*. The sample was representative of the New England marketplace, both geographically and in terms of food-broker representation. The food brokers ranged from the smallest to the largest in the New England marketplace.

The survey responses were very impressive. A total of 93 surveys were mailed, and only 8 surveys had to be eliminated from the total population: 2 were returned as undeliverable, and 6 respondents were food-service brokers, who do not pay retail slotting fees. This brought the total population number to 85 potential respondents. Thirty food brokers responded to the mail survey, and all 30 responses were usable. This gave a yield of 35 percent, which is very respectable indeed.

Demographic Profile of Respondents

An examination of the demographic profile of the presidents of the New England food brokers in Table 1 indicates that they tend to be older, with a mean age of 54 years. Nineteen percent were male and 7 percent were female. Sixty-three percent were college graduates, 20% completed graduate school, 10% graduated from community college and 7% completed high school. The respondents were representative of the population area; 70% were from Massachusetts, 20% were from Connecticut, 7% were from New Hampshire, and 3% were from Rhode Island. The average mean number of years in the food sales was 28. Thirty-seven percent employed more than 6 sales personnel, while 63% employed fewer than 6 sales personnel.

Survey Results

The presidents of the top New England food brokers were asked to rate 10 questions on a 4-part scale ranging from strongly agree to strongly disagree and to answer 2 questions with a yes or no response. A place was reserved at the end of the survey for open-ended comments.

The results of the survey are presented in Tables 2–13.

Table 2 shows a somewhat divided response by the sample. Forty-seven percent of the respondents strongly or somewhat disagree that grocery manufacturers making very high profits these days; 53% strongly or somewhat agree.

Table 3 shows a significant response by the sample. Seventy-three percent of the respondents strongly or somewhat agree that price is not the most important consideration for consumers purchasing supermarket products, while 27% strongly or somewhat disagree.

Table 4 shows a somewhat divided response by the sample. Fifty-three percent of the respondents strongly or somewhat agree that grocery manufacturers flooding the supermarket with too many new products that are not really new, while 47% strongly or somewhat disagree.

Table 5 shows somewhat divided response by the sample. Fifty-three percent of the respondents strongly or somewhat disagree that grocery manufacturers flooding the supermarket with too many new products that have not been properly test marketed, while 47% strongly or somewhat agree.

Table 1. Demographics of Total Sample.

Age	Frequency	%	Cum. %
30-39	2	7	7
40-49	8	26	33
50-59	12	40	73
60-69	6	20	93
70-79	2	7	100
GENDER			
Male	28	93	93
Female	2	7	100
EDUCATION			
High School Graduate	2	7	7
Some College	3	10	17
College Graduate	19	63	80
Post Graduate Work	6	20	100
NUMBER OF YEARS IN FOOD SALES			
< 9 years	1	3	3
10-19 years	3	10	13
20-29	11	37	50
30-39	9	30	80
40-49	5	17	97
> 50	1	3	100
NEW ENGLAND STATES REPRESENTED			
Massachusetts	21	70	70
Connecticut	6	20	90
New Hampshire	2	7	97
Rhode Island	1	3	100

Table 2.

Question	Response Category	f	%	Cum %
1. Grocery manufacturers are making very high profits these days?	Strongly Agree	6	20	20
	Somewhat Agree	10	33	53
	Somewhat Disagree	4	14	67
	Strongly Disagree	10	33	100

Table 3.

Question	Response Category	f	%	Cum %
2. Price is not the most important consideration for consumers purchasing supermarket products?	Strongly Agree	6	20	20
	Somewhat Agree	16	53	73
	Somewhat Disagree	6	20	93
	Strongly Disagree	2	7	100

Table 6 shows a significant response by the sample. Eighty-six percent strongly or somewhat disagree that slotting allowances are justified because new product introductions have increased over the years, while only 14% somewhat agree.

Table 7 shows a very significant response by the sample. Ninety percent strongly or somewhat agree that that slotting allowances are not justified where a definite need for new product introduction can be proven, while only 10% strongly or somewhat disagree.

Table 8 shows a significant response by the sample. Seventy-three percent strongly or somewhat disagree that grocery manufacturers offer too many deals and too often do not restrict deal quantities,

while 27% somewhat agree.

Table 9 shows a somewhat divided response by the sample. Sixty-three percent strongly or somewhat disagree that most abuses in marketing can be laid at the grocery manufacturers' door, while 37% strongly or somewhat agree.

Table 10 shows a significant response by the sample. Seventy-six percent strongly or somewhat agree that stronger government enforcement of anti-trust regulations would be beneficial to the food industry, while 24% strongly or somewhat disagree.

Table 11 shows a very significant response by the sample. Eighty percent disagree or somewhat disagree that charging failure fees to remove un-

Table 4.

Question	Response Category	f	%	Cum %
3. Grocery manufacturers are flooding the supermarket with too many new products that are not really new?	Strongly Agree	6	20	20
	Somewhat Agree	10	33	53
	Somewhat Disagree	12	40	93
	Strongly Disagree	2	7	100

Table 5.

Question	Response Category	f	%	Cum %
4. Grocery manufacturers are flooding the supermarket with too many new products that have not been properly test marketed?	Strongly Agree	2	7	7
	Somewhat Agree	12	40	47
	Somewhat Disagree	11	37	84
	Strongly Disagree	5	16	100

Table 6.

Question	Response Category	f	%	Cum %
5. Due to the fact that new product introductions have increased over the years slotting allowances are justified?	Strongly Agree	0	0	0
	Somewhat Agree	4	14	14
	Somewhat Disagree	7	23	37
	Strongly Disagree	18	63	100

Table 7.

Question	Response Category	f	%	Cum %
6. Slotting allowances are not justified where a definite need for a new product introduction can be proven?	Strongly Agree	19	63	63
	Somewhat Agree	8	27	90
	Somewhat Disagree	1	3	93
	Strongly Disagree	2	7	100

successful products is justified, while only 20% somewhat agree.

Table 12 shows a very significant response by the sample. Eighty-three percent do not pay the slotting allowances, while only 17% pay the slotting allowances.

Table 13 shows a very significant response by the sample. Ninety-three percent would not pay "Hello" money; only 7% would pay such a fee.

Concluding Comments

There was a wide range of responses from this sample population. It should be kept in mind that these respondents are the eyes and ears of the food industry. As such, many are very outspoken on the subject of slotting allowances because they are involved with them daily, and the ultimate effects of these allowances may hit home on a first-hand

Table 8.

Question	Response Category	f	%	Cum %
7. Grocery manufacturers offer too many deals, and too often do not restrict deal quantities?	Strongly Agree	0	0	0
	Somewhat Agree	8	27	27
	Somewhat Disagree	15	50	77
	Strongly Disagree	7	23	100

Table 9.

Question	Response Category	f	%	Cum %
8. Most abuses in marketing can be laid at the grocery manufacturers' door?	Strongly Agree	1	4	4
	Somewhat Agree	10	33	37
	Somewhat Disagree	7	23	60
	Strongly Disagree	12	40	100

Table 10.

Question	Response Category	f	%	Cum %
9. Stronger Government enforcement of anti-trust regulations would be beneficial to the food industry?	Strongly Agree	13	43	43
	Somewhat Agree	10	33	76
	Somewhat Disagree	3	10	86
	Strongly Disagree	4	14	100

Table 11.

Question	Response Category	f	%	Cum %
10. Charging failure fees to remove unsuccessful products is justified?	Strongly Agree	0	0	0
	Somewhat Agree	6	20	20
	Somewhat Disagree	3	10	30
	Strongly Disagree	21	70	100

Table 12.

Question	Response Category	f	%	Cum %
11. As a Food Broker, do you pay slotting allowances?	Yes	5	17	17
	No	25	83	100

basis.

If one has kept up with the subject of slotting allowances, the comments of the respondents do not really present any new information. However, this survey does point up the fact that some of the players in the food-distribution system may appear to be on opposite sides of this issue. Some would also suggest that the consumer is the one who is really footing the bill for this phenomenon called slotting allowances.

This study indicates that there is some real consensus on the subject of slotting allowances. However, the source of this study was the food brokers, who tend to be somewhat prejudiced in their respective remarks. If slotting allowances do tend to limit medium and small food companies from getting their products onto grocery shelves, there could be a problem down the line. This could result in only the big food companies getting their products onto grocery shelves. The end result would be a reduction in the assortment of products offered to the consumer.

Therefore, a new evolutionary concept could be on the horizon—a concept like gonzo marketing. As with gonzo journalism from which it takes its name, this kind of engaged participation is the exact opposite of “objectivity” that pretends to have no perspective, no point of view. Gonzo marketing provides a model whereby companies can stop manipulating people as if they were abstract demographic data and instead create genuine relationships. As products come to reflect genuine esteem for workers and customers, instead of self-congratulatory ballyhoo and the adversarial targeting tactics that surround the concept of brand today, companies will be far better served, and so will their markets (Locke 2001). This would benefit the consumer.

Where is this leading? Hopefully, to a realization that now is the time for each side to step back and view their trading peers realistically. First the often used but misstated term “partnership” must be abandoned. Buyers and sellers are not partners.

While pursuing desirable but dissimilar goals, they do share a common objective: to sell to consumers at a profit. More than ever, reality dictates that suppliers and chains must enter into strategic alliances to accomplish this goal. There needs to be an exchange of more data between the manufacturers and retailers all along the distribution supply chain, down to the ultimate retailer who puts the product on the shelf. The data should be used to establish credibility so relationships can be built on trust.

Frankly, how much good faith will prevail usually depends on the financial health of each participant. If slotting allowances are not linked to promotional activity and real in-store execution, then they become a practice that adds no value to the productivity loop, adds costs to the system (which are ultimately passed on to the customer) and works to no one’s long-term advantage (Forbes 2002).

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Table 13.

Question	Response Category	f	%	Cum %
12. Some Supermarket Retailers charge “Hello” money for a Buyer appointment. Would you ever pay such a fee?	Yes	2	7	7
	No	28	93	100

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