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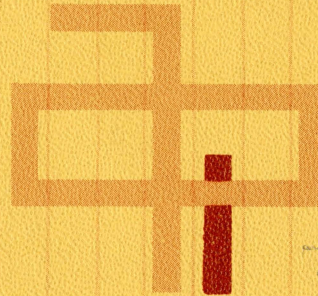
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Consumption

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no. 18

CONSUMER DECISIONS: PROBLEMS AND POLICIES

PUBLISHED BY THE
AGRICULTURAL POLICY INSTITUTE
NORTH CAROLINA STATE UNIVERSITY
AUGUST, 1965

THE CONSUMER AND THE PRODUCT--
QUALITY, PACKAGING AND PRICING

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I am delighted with the topic assigned for it relates to a major and traditional concern of consumers and the economy. Historically products were considered the only form of production; services were neglected. The modern consumer, however, is spending increasing amounts for services, as is clearly evident from Commissioner Ewan Clague's presentation. Furthermore, those services include not only the customary ones such as housing, personal care and transportation, but many which are so new that society has not bound them with tradition and custom. As a result the consumer has neither assurance of proper service, if these services are purchased without specifications, nor does he have the ability or time to draft a set of specifications that will yield satisfactory service. Such is the problem of the consumer shopping for nursing home care for an elderly member of the family, child care services for the preschool child, or medical services.

And I am even more relieved not to be concerned in this discussion with consumer choices where collective consumption is involved. An increasing proportion of the consumer dollar goes for highways, schools, parks, medical care of the indigent, defense, social security and other services that do not permit clear-cut alternatives for the individual consumer. This point is extremely well developed by Professor James R. Elliott in a recent (April 1965) article appearing in Challenge entitled "Can Consumers Really Choose?"¹

The Blending Process

So, my task is a fairly simple one. Compared to the nebulous area of services, products are tangible, specific and can be defined. In this discussion the focus is on the process of blending consumer preferences

¹James R. Elliott, "Can Consumers Really Choose?" Challenge, April, 1965, pp. 30-33.

with product qualities, and the accompanying process of blending the willingness and the ability to pay prices commensurate with the cost of producing the desired quality.

This blending process involves a host of sub-processes which too frequently are dismissed with cliches such as "The consumer is in the driver's seat," "The consumer is a capricious master," "The consumer knows what he wants." And one owner of three supermarkets stated before the National Commission on Food Marketing this month: "Mrs. Housewife is my boss; I own and operate the store; she runs it."² Or, the blending processes are camouflaged by vague and contradictory remarks, as that made in a recent address of a national advertising executive: "This is the heart of the marketing concept--that in this country we try to manufacture and sell what the consumer is willing or can be persuaded and educated to buy"³ (underlining is mine). Yet a few paragraphs later he describes The Hidden Persuaders as a book that ". . . pivots on the idea that the consumer is manipulatable." And adds: "Nothing could be farther from the truth!" I ask: "If the consumer cannot be manipulated, what is the purpose of trying to persuade and educate the consumer to buy?"

Simplified characterizations of consumers and simplified descriptions either reflect unhealthy naivete, or a public relations effort to divert attention from the real issues. There is no need to discuss the obvious: That these gross simplifications are part of a selling effort to sell selling.

But there is need for penetrating analyses of the decision-making processes, especially in evaluating the quality of the information (its validity and reliability) as needed by consumers and suppliers to make efficient and accurate decisions.

The consumer's decision-making process involves a multitude of intricate interlocking steps which relate the consumed (end) product to the consumer's basic needs, aspirations or self-image. Recognition of these steps, in relation to consumer education, has been discussed in another paper.⁴ Described are three basic levels: Standard of living (goals); Programming (budgeting); and Buymanship. In greater detail are the five buymanship steps: (1) Rank needs in order of importance,

²Kansas City Times, May 7, 1965, p. 1.

³John R. Crichton, "The Peculiar Responsibility of the Consumer," A speech delivered October 2, 1964, reprinted by American Association of Advertising Agencies, Inc., p. 3.

⁴Richard L. D. Morse, "Consumer Education," Forecast, June, 1958, pp. 23-26.

(2) determine the relative efficiency of alternative product attributes for meeting those needs, (3) locate those desired attributes in the marketed products, (4) locate and price these products in the market; and, finally, (5) balance the prices against the relative efficiencies of alternative products, and balance their cost with their satisfying power relative to other satisfactions desired.

The decision-making steps involved in organizing productive resources to supply consumer goods at retail are variously described and intensively studied by students of marketing. And I have nothing special to contribute except to note that in many respects the decisions of buyers and suppliers are parallel. The seller is concerned with consumer preferences, with the measurement of product attributes, with production quality control for product uniformity, with product performance standards and labeling. If time permitted at this point, I would review in more detail three old, but pertinent articles:

The first: In 1947 Happer Payne, who was then with the National Canners Association, contributed a very helpful discussion identifying important consumer product characteristics and labeling them.⁵ He developed the rationale for standardized descriptive labeling. The second: Dr. Eugene R. Beem, now economist for S & H Trading Stamp Company, analyzed in a 1952 Journal of Marketing article, "Consumer-Financed Testing and Rating Agencies."⁶ He summarized the basic limitations of consumer research, and in so doing set forth the basic problems of consumer product intelligence. Emphasis of the third paper is implied in the title: "Consumers Look at Labeling," in which labeling is related to technical problems to advance disclosure of meaningful information for the consumer.⁷

Policy Determinants

To this point, I hope I have suggested the vast and complex network of communications needed to effect the blending process between consumers and suppliers. Involved are many problems and issues--packaging, quality

⁵Happer Payne, "Standardized Description, A Form of Specification Labeling," Journal of Marketing, October, 1947, pp. 234-241.

⁶Eugene R. Beem, "Consumer-Financed Testing and Rating Agencies," Journal of Marketing, January 1952, pp. 274-285.

⁷Richard L. D. Morse, "Consumers Look at Labeling," in Selected Proceedings, Third Annual Conference (April, 1957), Council on Consumer Information, Greeley, Colorado, pp. 23-28.

control, standards, specifications, labeling, guarantees and warranties, product liability, distribution, storage, pricing systems, advertising, any one of which could have become conference topics, let alone a single paper. Each has its special aspects which makes each different. Yet basic to each is an approach or attitude which, once assumed, colors the position taken by different persons as they view problems and evaluate policies.

To illustrate my point I have selected consumer grades as a specific topic. To argue the case for or against consumer grades, one must give serious consideration to and make assumptions about:

- The function that grades are presumed to perform in the market process.
- The role of the market process in the economy.
- The type of economy we choose to advance.
- The ethical principles by which "advancement" is evaluated.

My thesis is that if there is a consensus of opinion on these four policy determinants, then it is more likely that policy recommendations on specific issues will be generally acceptable (with due allowance for differences of opinion regarding relevant facts). However, divergence of opinion on these policy determinants will likely result in divergence in policy recommendations on specific issues. (Of course, people may agree on a given course of action, but for entirely different reasons. But this is more the exception than the rule.)

If I am right about the importance of these policy determinants, then our time can best be spent examining them. This I choose to do, bringing in specific consumer issues, especially consumer grading, to illustrate the points.

Let us start with the most basic determinant, the ethical principles.

Ethical Principles

I accept the four Consumer Rights enunciated by President Kennedy in his historic March, 1962, consumer message to the Congress and reaffirmed by President Johnson in his "Message on Consumer Interest" to the Congress in February, 1964.

1. The first is the right to safety--"to be protected against the marketing of goods which are hazardous to health and life."
2. The second is the right to be informed. This has two aspects: the first being "to be protected against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices."

This protective aspect is matched with a positive aspect, namely, the right of the consumer to be informed by being "given the facts he needs to make an informed choice." This right, in my opinion, parallels the responsibility of the consumer to make informed choices. In our free enterprise economy, we rely upon the votes of the consumer in the market place to direct the economy. In another section of his message, President Kennedy said, "If the consumer is unable to choose on an informed basis, then his dollar is wasted, his health and safety may be threatened and the national interest suffers."

3. The third right of the consumer is the right to choose--to be assured, wherever possible, access to a variety of products and services at competitive prices. ". . . That is, if the consumer is to exercise his franchise to vote, he must have choices. We ridicule free elections in which there is no choice of candidates. Likewise, a competitive free economy is meaningless if there is not a choice of goods with desired attributes at competitive prices." ". . . and in those industries in which competition is not workable," and such as in the public utilities, "and government regulation is substituted" for the workings of the free market system, then "an assurance of satisfactory quality and service at fair prices" is the right of the consumer. This will not be fulfilled, however, unless the consumer has a right to be heard before regulatory bodies regarding rate structures for gas, electricity, transportation, and the like. This leads to the fourth point.
4. The right to be heard--"to be assured that consumer interests will receive full and sympathetic consideration in the formulation of Government policy, and fair and expeditious treatment in its administrative tribunals."⁸

⁸Consumer Advisory Council, First Report, Executive Office of the President, U. S. Government Printing Office, Washington, D. C., October, 1963.

The most pertinent right, the right of the consumer to be informed--to be given the facts he needs to make an informed choice--is by no means universally accepted. This is a shift from Caveat Emptor to Caveat Venditor. It means the seller's responsibility to know and to understand his product from a consumer-buyer's viewpoint! Information needed by a consumer to make an informed choice (for that consumer) may require the seller to have a different concept of his product than if his responsibility is only to sell. A good salesman would find this no handicap. In fact he might consider it descriptive of his performance. And he might be right, but I have known too few such salesmen.

Opponents to the right of consumers to be informed are among those who have opposed Truth-in-Packaging, Truth-in-Lending, Textile Fiber Identification, Hazardous Substances Labeling, Hardwood Labeling, and other proposals to standardize disclosure. Most violent objections have come not only from the individual interests affected, but from such related sectors as the advertising profession.

Although product quality identification is not popularly accepted and often opposed, consumer education has wider acceptance. If disagreement were to arise, it would be over financing of public supported consumer education. But too few schools have active viable consumer education courses for this to be an issue. A possible exception to meager financing of consumer education is that portion of the \$14 billion lavishly spent annually in advertising that might be considered as consumer education.

But money costs do not begin to measure the more subtle costs of getting the information needed to feed into the human data-processing decision-maker for appropriate decisions. With over 6,000 items in a typical supermarket, items whose shapes, forms, color, and printing change constantly, the consumer is confronted with a very practical decision, namely, whether the cost of getting the information needed is worth the benefits anticipated from the use of this information.

Since consumer education is concerned with principles for choice-making and product comparisons, unlike most advertising and selling which tell the consumer what to buy, the consumer must hurdle the gap between principle and practice. And if the cost of gathering the information necessary for making comparisons seems excessive in the minds of consumers, so that the responsible consumer in a very responsible manner makes the calculated decision that it is better to pay the price of being ill informed than to bear the cost of becoming a discriminating buyer, then the value of consumer education is lost. The cost of the education becomes a loss and not an investment for society.

Furthermore, once the consumer no longer finds an intelligent rational approach to shopping rewarding, she becomes commercially mesmerized. She is then a much better mark for emotionally pitched slogans. Her sensitivity has been dulled. She will take less interest in facts. She will find appealing those sales promotions which confirm her decision to surrender her responsibility for making her own decisions and for accepting the guidance of others as to what is the best buy. Furthermore, such resignation from self-protection by the consumer means a greater need for government policing of the market to prevent exploitation of the more ethical businessmen as well as the consumer. Absence of functional consumer education invites consumer protection.

The consumer not only has the right to be given the facts he needs to make an informed choice, but such facts should be made readily accessible for efficient assimilation by the consumer for making valid choices. For example, the requirement of an accurate statement of quantity on package labels is widely accepted as a reasonable requirement; yet, proposals to require that the statement be legible are hotly debated. As many of you know the National Conference on Weights and Measures will vote next June on a committee recommendation of a STANDARD of NO MINIMUM in size of print on package labels of 4 square inches or less. Only on package labels of about a foot square (greater than 120 square inches) is the proposed minimum print size 1/4 inch! . . . It seems ridiculous to me that anyone who has watched shoppers and knows the speed with which the eye must absorb facts essential for mental computations could think that any size less than 1/4 inch would be functional for the vast majority of consumers. For the aged, whose vision is poor, the proposed recommendations are an indignity; they must either block the aisles of the supermarket to the irritation of other consumers as they study the labels, or buy blindly. Inability to spot small print is not limited to the aged, so the net effect of the proposal will be to give a bounty to package designers who can make packages LOOK bigger. (I hope you enjoyed with me a recent "Berry's World" cartoon of two boxes of candy labeled "Extra Large" and "Super Extra Large," and the salesman was explaining: "Sure, the boxes are the same size, but this one has 55 percent less air") The men who will be voting next June are public servants, whose loyalty lies with meeting the needs and interests of the public, which may be interpreted as the "Consuming public" or the "Special interests."

The right of the consumer to facts in a readily accessible manner is the rationale for grading which reduces the number of items from which the consumer need select, into clusters of goods graded according to attributes of significance to consumers.

Knowledge of consumer preferences is a logical requisite for adequate consumer grades. Lack of this knowledge has not limited the grading program as much as the opposition of trade groups which prefer to supply the consumer with private information rather than standardized objective information. The right of the consumer to facts in a readily accessible form is the justification for grading as employed by the U. S. Department of Agriculture and standardized descriptive labeling as employed by the National Cannery Association.

The Economy

The economic system with which we are concerned is, like all economic systems, charged with the allocation of limited resources among the many alternative uses for meeting the unlimited desires of consumers. Slogans such as "What is good for business is good for you" and actions of some influential groups, however, suggest that the conceived purpose of the economy is to preserve and maintain the bureaucracy of the economy, that is, to preserve existing business institutions and practices. From this viewpoint, grading and similar proposals tend to be evaluated not in terms of their contribution to efficient marketing, but in terms of their effect on the established order.

Emphasis is to conserve existing systems. Only innovations such as in advertising, packaging, and promotional gadgetry that stimulate the development of competitive commercial bureaucracy are encouraged. Standardization, grading, and other product identification and simplification efforts to increase the efficiency of market communications are considered to constitute a threat to the prevailing order.

Another sector of the American community believes the purpose of the economy is to advance the interests of the consuming public. Their slogan in contrast to the one stated before is "What is good for you is good for business." Their position was clearly stated by Adam Smith, the father of the free enterprise system:

Consumption is the sole end and purpose of all 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.

It is this position to which I subscribe, and then hasten to underscore that to focus on business or the consumer is a matter of emphasis. These are not alternatives. We are now in the midst of a period when both business and consumers share in a level of prosperity unparalleled in the history of this nation.

The Market Process

If one accepts the assumption that producers should take into account consumers' preferences, he will consider as a satisfactory market one which informs producers concerning consumers' preferences, as expressed in prices, qualities and rates of consumption, so that these may be taken into account in planning production and directing supplies within the market.⁹

The market process, as a blending process, is a system of communication. It allows consumers to vote with dollars as they exchange dollars for goods and services of desired quantity and quality. The pricing system is the automatic signal board directing the flow of money and goods. "Price is the exchange ratio of money for goods. If the unit in which either the money or the goods is expressed is equivocal, so is price."¹⁰ The vitality and validity of the pricing system, thus, depend in large measure on the degree to which consumers are able to recognize the desired qualities of commodities in the market. Consumer grades facilitate this identification and encourage price comparison shopping.

This seems so obvious I am sure some of you wonder why I bother to dwell on it so long. There are some influential leaders, however, who doubt the comparability of items of like kind and quality, and thereby dispute the ability of consumer to comparison shop. I had never confronted such thinking until Senator Bennett questioned my use of paired alternatives for car financing at a Senate Hearing.¹¹ The next day he introduced evidence showing that there were 98 million combinations of Chevrolet options.¹² Thus, he commented, "The possibility that an automobile buyer would walk from one dealer's showroom to another dealer's showroom and find more or less identical models of the same car on which to compare prices is quite remote." The moral for food marketing is obvious; the number of currently available models of foods far exceed those of cars. Thus, grading is essential if the price system is to function efficiently in a system which depends on consumers to compare values.

⁹Richard L. D. Morse, Egg Grading and Consumer Preferences, Ph.D. Dissertation, Iowa State University Library, Ames, Iowa, 1962, p. 2.

¹⁰Ibid., p. 5.

¹¹Hearings before a Subcommittee of the Committee on Banking and Currency, U. S. Senate, 87th Congress, 1st Session on S. 1740, 1961, p. 312.

¹²Ibid., p. 409.

Major objections to grading are not at the technical and obvious level, but reflect basic differences in viewpoint. They strike at the role of the market process in regulating the economy, and particularly the role of the price mechanism, to reflect to consumers the costs of providing alternative goods and services, and to guide producers as to what consumers will buy. I quote first from Dr. DeGraff of the American Meat Institute:

Government grading generally is regarded as a contribution to what is called marketing efficiency. That is, it provides carcass and primal cut identification that is standard throughout the meat trade and in terms of which product can be described and price quoted. The rise of government grades has changed the structure of the packing industry and the number of competing meat packers, by providing everyone with the same "House brand." But, conversely, government grades have destroyed some private brands in the industry and have weakened others and thus have tended to make graded carcasses and cuts "mere cordwood commodities." This in turn has reduced competition between packers to little more than price competition.¹³

Dr. Brunk, Professor of Marketing at Cornell University, speaking to the American Meat Institute last fall admonished them along a similar vein:

You lag behind because your industry has been engaged in a gigantic battle of cost competition. When everyone in the industry produces a common product that cannot be distinguished in the market place . . . when everyone performs essentially the same services . . . price becomes your only effective weapon.¹⁴

He urged the industry to develop marketing services by which its products can be differentiated and profits generated.

¹³H. DeGraff, "To Improve Profit, Packer Needs More Control over Marketing of Own Product," National Provisioner, Convention issue, October, 1962, p. 68.

¹⁴Max E. Brunk, "Toward a Market Meat Industry," mimeo address at annual meeting of American Meat Institute, Chicago, Illinois, September 28, 1964.

Not only may the "quality" be varied, but also the price with trading stamps. An item priced at 59 cents without stamps is not equal to this same item at the same price plus blue stamps with their premiums, green stamps and their premiums, etc. Trading stamps not only have been a major contributor to retailer operating costs, but also to confusion in price comparison shopping.¹⁵

Consumer Grading

"Although goods flow from production into consumption, preferences must be reflected in the opposite direction, from consumption to production. It is the function of grading to provide efficiently a description of the qualities of products to buyers and sellers if supply is to be properly coordinated with demand; that is, information as to the market demand must be pressed backward in the market process toward the producers. Since the market demand rests in large part on consumer's preference, their preferences should serve as the fundamental basis for formulating grade specifications. Grade specifications should be read from consumer to producer."¹⁶

In view of the Borden Case, I should say that I use the words "grades" to reflect the intrinsic "quality," the physical characteristics or attributes.

I do not favor those grades which:

- . . . are of little or no functional significance to consumers.
- . . . are not labeled conspicuously on the product for ready identification of the quality of the product by consumers.
- . . . are not standardized for reliable repeat-purchase over time or for making reliable comparisons in relevant markets.
- . . . are not sustained by adequate inspection, that is, inspection by which the probability of a purchased product being within a grade is sufficiently high that the consumer can rely upon the grade label to designate an anticipated quality range of product.

¹⁵Richard L. D. Morse, "Trading Stamps--A Consumer's View," Department of Family Economics, Kansas State University, Manhattan, 1965.

¹⁶Morse, op. cit., p. 20.

- . . . are so broad as to embrace the entire range of acceptable products, allowing re-grading to sort out the top portion for private label resale, and thereby depreciate the quality of product sold under the grade label.
- . . . are labeled in terms which create confusion for the consumer, or do not facilitate rational decision-making.

I classify such grading as "commercial boondoggling" or "market featherbedding" for it provides employment for marketmen at the expense of consumer interests.

Summarizing then:

- Justification for consumer grades is based on the need of consumers to compare product attributes and to communicate their preferences--
- Through a market process that makes effective use of a price system to relate supply costs and demand preferences--
- In an economic system designed for the efficient allocation of resources to meet the more urgent needs of consumers--
- In a society that recognizes the rights of consumers to be informed, to have free choice, to be protected from deception and the unsafe, and to be heard when free enterprise system is supplemented by government regulation.

This is the framework I find useful in thinking through specific consumer issues--trading stamps, tire standards, package labeling, credit rate disclosure, etc. --and I hope it is of some help to you.

Whatever else I may have said, I hope I have made it manifestly clear that a vigorous free enterprise price competitive economy is the heart of consumer protection, that paternalism by government or by private business is no substitute for the full exercise of the rights of the consumer to be informed and to choose, except where safety is involved, and that no effort should be spared to encourage and develop rational choices by consumers.