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The Impact of Consumerism on the Market

COLSTON E. WARNE*

Thirty-five years have passed since Consumers Union of United States (CU) ambitiously set out to develop a national consumer consciousness from a two-room New York office. CU was the offshoot of a disoriented predecessor, Consumers Research, which a half-dozen years earlier had pioneered in establishing consumer testing. The first decade of CU's development was a precarious one. It was faced by an advertising boycott and by the designation of the organization as a subversive effort undermining the American way of life.

Somehow the organization managed to weather the initial period of skepticism, a second period of war-induced product shortages, and today has a monthly circulation approaching 2,000,000 copies, an annual budget of \$12,000,000 and a staff of 350. This new social invention of brand-name product testing by an organization owned and controlled by consumers now has its counterparts in most technically advanced countries.

From its inception CU has accepted no advertising and has purchased its test samples in the open market. Its directors and staff

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are not permitted to have connections with business enterprises which would affect their independent judgment. The central thrust of the organization has been that of ascertaining consumer purchase plans through an annual questionnaire, of learning from the membership their testing priorities and of bringing test techniques and surveys to bear which will ascertain the character of products, the problems of safe use, the pricing patterns encountered in the market, the adequacy of guarantees and warranties and the availability of suitable substitutes.

In the presentation of the material to *Consumer Reports*, CU has sought to steer a course between the technical accent of the engineer and the brevity demanded by the consumer on the run. The organization has sought to blend sobriety with good humor. A recent survey conducted by Benson and Benson of Princeton, New Jersey, reflects the bewilderment of American consumers in the market and their desire for assistance in buying economically. In all, 92% subscribed "to know what to look for in order to tell a good product from a bad one." The survey revealed that 54% expected to save money through reading *Consumers Reports*. The same number contended that they could not rely on what advertising or the salesmen told them. The Benson and Benson study also revealed the highly educated and highly articulate audience which CU is reaching. The median age was 40; the median income \$14,336. In all, 79% had a college background. Some 63% were in professional or managerial occupations.

In CU's thirty-five years of existence very little scholarly activity has been devoted to the measurement of the impact of consumer testing upon consumer purchasing. Eugene Beem of the Wharton School in the early 1950's did study the phenomenon of consumer testing in a doctors thesis.¹ Sylvia Lane of the University of Southern California measured CU's impact upon manufacturers in the middle 1950's.² Hugh Sargent of the University of Illinois sought to measure the extent to which buyer purchasing patterns were al-

1. E. Beem, *Consumer Financed Testing and Rating Agencies in the United States*, (Doctoral dissertation presented to University of Pennsylvania, 1951).

2. S. Lane, *A Study of Selected Agencies that Evaluate Goods Qualitatively in the United States* (Dissertation presented to faculty of the Graduate School of the University of Southern California, in partial fulfillment of the requirements for a Ph.D. in Economics, January, 1957).

tered.³ Harry Strickling of the New York University Graduate School of Business sought to discover the impact of their testing organization on the marketers of major appliances.⁴ Thomas Juster of the National Bureau of Economic Research conducted an extensive study of the purchase expectations of a sample of CU's membership, feeling that it was reaching a group whose purchase intentions tended to anticipate major market shifts.

While all of these studies did throw some light on consumer testing activities, the truth is that very few scholars have been greatly concerned with the effect of consumer testing on business. Except for Hans Thorelli of Indiana University, who is now comparing the market impact of CU with that of a number of foreign organizations, and Professor Ruby Morris of Connecticut College, who is measuring CU's impact, CU has been largely neglected by the scholarly world.

The reason may lie in the very recent emergence of "consumerism" as an important force in the economy. CU has, after all, doubled its roster of subscribers in the last five years. A part of the neglect may also be due to the assumptions of economic theorists as to the nature of the market. After all, American brand-name advertising, a most powerful market force, was long neglected before Edward Chamberlain gave it attention. Even today one may pore through most volumes on economic theory and observe little mention of the economic impact of advertising.

Whatever the reasons, it does seem clear today that consumer testing has speeded many transactions by giving consumers a basis for reaching a decision before entering a store. Consumer testing has also measurably altered market shares. It has stimulated the growth of certain innovations and has retarded the growth of others, not as useful to consumers. Consumer testing has had an impact on levels and types of advertising appeal and on resource allocation. It has given a new meaning to freedom of choice and to consumer sovereignty. In some small way, it may even have retarded the accent on style and have given impetus to a new accent on safety.

3. H.W. Sargent, *The Influence of Consumer-Product Testing and Reporting Services On Consumer Buying Behavior* (Thesis presented to faculty of the Graduate College of the University of Illinois for Ph.D. in Communication, 1958. The research was implemented by research grants and fellowship from Consumers Union).

4. H.L. Strickling, *Implications of the Existence of Consumers Union for Marketeers of Major Appliances and Related Consumer Durables* (Thesis presented to the faculty of the Graduate School of Business Administration, New York University, in partial fulfillment of the requirements for M.B.A., 1965).

The degree and intensity of this impact of testing vary greatly by fields. From all the evidence CU has observed, food tests have in all probability not had a great market effect. CU may induce consumers to stay away from fish sticks because it recently found in many brands a high level of fecal contamination of the product. (In September, 1970, we found half of the 40 nationally-sold brands with such contamination).⁵ In the main, however, food buyers are prone to do their own testing rather than to go to the trouble of looking up CU's test ratings.

Similarly, in the field of purchasing children's shoes, we found some differences between brands but recognized that the main value of CU's article might flow from its advice in furnishing guides as to proper fitting without the use of a fluoroscope.⁶

There are, however, areas in which brand-name testing has today a substantial impact. In this connection Strickling stated: "Consumers Union has emerged at least in some markets as a factor in which consumers put their trust, equal to and in some cases exceeding in influence the traditional factors of store name and brand name."⁷ This new loyalty is especially great among those with higher incomes and higher education, affecting those with greater mobility and greater sophistication and the greater per capita number of appliances.

In the early study of Beem and Ewing some twenty years ago, 27 out of the 52 sales managers questioned thought a favorable rating had a great or measurable effect on their sales. Some 35% of the sales managers thought that a bad rating had an effect on their sales. The greatest sensitivity to ratings was found among the larger mail order houses.

Sylvia Lane in her study contended that consumer testing agencies have influenced firms to improve product quality by pinpointing product defects and by listing the attributes of competitive products which are deemed superior. She contended that the real income of consumers was measurably augmented by the buying counsel given.

Most of the studies thus far undertaken allude to the great

5. 35 CONSUMER REPORTS 545 (Sept. 1970).

6. *Id.* at 512.

7. H.L. Strickling, *supra* note 4.

surprise of retailers in first noting the marked effects of favorable ratings. Thus a store's inventory of a top-rated brand of air conditioner, television set or high fidelity speaker may be completely wiped out within several days after the test. An automobile salesman accustomed to consumers asking many questions about the product may be surprised to discover consumers, checkbook in hand, interested in a particular model with particular options and concerned solely with one question—the price.

From its thirty-five years of experience, CU has learned much concerning the areas in which consumers wish product information. At the top of the list is, of course, the motorcar, followed by major appliances and small appliances. Articles in the field of medical and health information will also be high on the list.

One rule of thumb on which the organization operates is that of watching the competitive advertising claims in a given field. Whenever a battle of claims and counterclaims exists, whether over enzymes, phosphates or "tigers" in gasoline tanks, the demand is to conduct a test, or resolve the dispute impartially rather than for the consumer to accept the loudest voice.

It is only fair to recognize that a consumer testing organization is by no means today's panacea for all of the nation's market ills. CU does exercise an unknown but substantial leverage in the market. It does not possess a perfected instrument of social change. Consumer testing is principally employed by intelligent, affluent consumers who would fare reasonably well in the marketplace, were it not to exist. Those most exploited in the market, those who are the most ardent supporters of brand names, are prone to be those with the lowest income. They are not typically Consumers Union members.

The consumer testing movement of today focuses its attention rather heavily on the goods of an affluent society—automobiles, skis, television sets. While CU may competently puncture many bubbles of over enthusiastic sales promoters, it has not given adequate attention to the nutritional needs of consumers or to the environmental hazards that all buyers face. CU's output has in the past been somewhat narrowly focused. It has accepted the allegiance of a limited opinion-forming segment of the community that is more interested in the clarity and fidelity of television pictures than in the problem of what is televised. Becoming as it has the bible of the affluent, it has not paid adequate attention to the needs of other consumers. Perhaps in retrospect CU has been too dignified, too eager to keep a calm, dispassionate tone. For a quarter of a century it has been pleading for uniform USDA quality grades on foods, for

compulsory federal inspection of foods and for a vital federal concern over product safety. Yet it was not until the dramatic flair of Ralph Nader was brought to bear that substantive results were forthcoming.

For many years CU has testified at hearings and served on government advisory committees in the hope that consumer-oriented legislation would emerge. Today's flood of bills in the field of auto safety, food safety, toy safety, medical safety and the protection of consumers against fraud and deception reflects a new political response to the consumer. CU has only planted the seed of an idea. Other direct action groups aided by politically ambitious Congressmen have brought the result.

Ralph Nader somewhere declared the new consumer movement of today is the meeting place of the middle class desirous of careful tests and rational purchasing, the Blacks desirous of redressing consumer grievances and freedom from economic exploitation by merchants, and of conservatives feeling concern about the waste of resources and bad social department of corporate business.

CU has undoubtedly been the vehicle of the middle class. It is becoming a new force seeking to create an altered power balance by giving consumers a better knowledge of the product. Will the article function successfully?—what dangers does it bring with it?—what costs?—what benefits?—what are the alternatives?—is it accurately promoted?—what guarantee does it carry? CU's findings are, of course, imperfect. They may not give adequate weights to the attributes desired by consumers. CU may not have a fully adequate sample. CU's test techniques may not be fully perfected. CU may not cover all the brands in the market. Qualities may change subsequent to CU's tests.

CU has nonetheless successfully launched a new movement, the full implications of which remain to be seen. Perhaps the best insight into this future was given in June 1966 by Donald F. Turner, then Assistant U.S. Attorney-General in charge of Antitrust. Mr. Turner, now professor of law at Harvard, spoke before the Federal Bar Association:

We all know that such consumer research organizations as *Consumer Reports* tend to promote informed consumer judgment, and we can reasonably surmise that reports of that kind, if generally circulated, would significantly limit the ability of advertising to en-

hance degrees of monopoly power, to say nothing of enabling consumers to spend their dollars more fruitfully

A major difficulty is that these publications are produced by non-profit organizations and that they frequently face difficulties in obtaining the funds required for adequate testing and evaluation. One prospective solution would be governmental efforts in this direction, either direct governmental evaluation and publication, or financial support for private organizations of this type

Mr. Turner was contending that excessive advertising outlays may well have a significant impact on the degree of market power exercised in many industries and that it may impair the functioning of a competitive economy. His proposal was based on the theory that freedom of entry constitutes a pivotal factor in maintaining workable competition. The impact of extensive brand-name advertising competition, he affirmed, is far different from price rivalry between competitive brands. The excessive din created on behalf of established products tends to limit the salability of cheaper but relatively unknown brands. Either the newcomer has to incur heavy selling costs in penetrating a market or cut prices. Heavy advertising thus constitutes a barrier to entry and eliminates a major competitive price restraint. The considerable advantage already possessed by established products tends to be accentuated and more messages per dollar can be provided by the larger firms through quantity discounts in the media.

In essence, Professor Turner was suggesting that governmental policies be directed toward the broadening of the scope of test organizations in order to remove the uncertainty which surrounds the relative merit of products—an uncertainty which makes consumers peculiarly prone to accept the blandishments of established brand-names; hence enhancing monopoly power. Once advertising expenditures have built up deeply entrenched consumer preferences, new competitors find market acceptance difficult. If new and accurate sources of consumer information are made available, rational choice may ensue and market shares would depend upon efficiency and superiority of a product rather than quantity of effective advertising.

Those connected with Consumers Union are bound to be flattered by the pivotal role in antitrust enforcement suggested by Mr. Turner's thesis. The world organization of consumers, International Organization of Consumers Unions, has long been accustomed to the use of extensive government subsidies for consumer testing. In Norway, for example, half of the cost of consumer testing is carried by the government. Yet Mr. Turner has perhaps excessive faith in the power of consumer testing to search out and discover successful innovators to restore rationality and competition in the marketplace on a scale that would approximate the basic assumptions of

economic theory—with rational buyers in full knowledge of alternatives confronting rational sellers.

It should be emphasized in closing that consumer testing is by no means a patented tool owned by Consumers Union, nor is it by any means a new tool. It is today employed by purchasing agents of corporations, of universities, of hospitals and hotels. It is used by government purchasing agents. The consumer interest in product testing was born of the recognition that product experience may be systematically measured and fairly reported. As a non-profit organization run largely by professors in American universities (13 out of 21 of our Board), we welcome the participation in considering the problems of the consumer by those interested in the legal aspects of consumer research.