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August 13, 1987

THE VIEWS OF A SAMPLE OF KNOXVILLE, TENNESSEE
RETAILERS REGARDING COOPERATIVE ADVERTISING

A Thesis
Presented for the
Master of Science Degree
The University of Tennessee, Knoxville

Mark Barnett Williams

August 1987

DEDICATION

To my brothers, Frederick, Ronald and Leon.

ACKNOWLEDGMENTS

I would like to thank the members of my thesis committee, Dr. Mike Singletary, Dr. Herbert Howard, and especially Dr. Ron Taylor. These people helped to make writing my thesis an enjoyable experience.

Additional thanks go to Opal Lee and Margaret Cook, two people who are always willing to give of themselves to help a person in need.

I would also like to thank my many friends who have helped to make this day a reality. Of particular note are: Beverly Davis, Allyson King, Mike and Phyllis Armstrong, and Alex Mohler.

Finally, I am grateful to my parents, Napoleon and Mary Williams, for an education that goes far beyond the classroom.

ABSTRACT

Non-usage of cooperative advertising has long been a source of frustration for manufacturers, media companies, and retailers. Current speculation places much of the blame for non-usage on the local retailer, suggesting that he has become apathetic about cooperative advertising, ignoring its benefits and choosing to rely on his own advertising attempts. Unfortunately, very little actual research has been done to explore cooperative advertising non-usage from the perspective of the local retailer.

This study developed and implemented a survey tool for collecting pertinent information about local retailers and their views and perceptions about cooperative advertising. Twenty personal interviews were conducted with a sample of clothing retailers located in Knoxville, Tennessee.

The survey was conducted with the manufacturer in mind, and collected the types of information that a media representative would like to know about his potential customers, the retailers.

Significant findings include the fact that contrary to prior beliefs, retailers have a high level of general knowledge about cooperative advertising, that 70 percent of retailers make a moderate effort to use their earned co-op money, and that three times as many retailers make no effort to use their earned co-op as those who make a strong

effort to use it. Seventy percent of the retailers questioned named newspaper as the co-op media they use most often, and only 20 percent of the respondents have ever made a change in the co-op media that they use.

The study suggests that manufacturers and media representatives make significant changes in their efforts to increase co-op usage by the small retailer and that co-op programs themselves be revised.

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CHAPTER I

INTRODUCTION

Few would argue with the statement that advertising contributes significantly to the nation's economic well-being. It pumps billions of dollars into the economy every year. The sources of these advertising dollars range from the largest national advertiser to the smallest local retailer.

To the national advertiser, the often enormous amount of money that he spends every year on advertising represents a necessary part of doing business. He realizes that he must spend generously to convince consumers to buy his product.

While the manufacturer's advertising encourages consumers to buy products, it commonly does not tell consumers where to buy products, or give consumers reasons to go into a store and buy the product right now. In order to keep a steady flow of merchandise from the manufacturer to the consumer, the manufacturer must rely on the local retailer to persuade the consumer to come into his store and buy the product.

In contrast to the enormous advertising budgets of national advertisers, the advertising budget of the local retailer is often quite small. Due to the small amount of funds he can target towards advertising, the local

retailer's advertising campaign is in many cases, sporadic, weak, and often inefficient.

In recognition of this problem, many manufacturers offer to supplement the advertising campaign of the local retailer who carries his product. This supplementation is done through a financial agreement called cooperative advertising.

Current estimates suggest that well over 5 billion dollars is made available to retailers through cooperative advertising programs every year. (David, 1986) Some estimates suggest a figure closer to 10 billion dollars, and according to Sanford Maizel, Vice President of Jarman, Spitzer & Felix, cooperative advertising accounts for at least as much in ad billings as national advertising. (Maizel, 1984) As a result of such generous estimations, a certain mystique has formed around the concept of cooperative advertising in recent years.

Cooperative advertising refers to a mutual benefit advertising system whereby two parties share the costs of advertising. For example, a manufacturer will return a percentage of a retailer's advertising costs if the retailer has included the manufacturer's product in his retail advertisement. As a result of this sharing of costs, the manufacturer has received exposure for his product in a local market, the retailer has received exposure for his retail outlet at a fraction of his normal advertising costs,

the local media company has received advertising revenues, and the consumer has received information as to product location and price. Everyone seems to benefit in this best case cooperative advertising scenario.

Manufacturers have long realized the value of cooperative advertising, and as such, continue to allocate large percentages of their entire advertising budgets specifically for that purpose. The basic goal of cooperative advertising, as viewed by the manufacturer, is to gain local, where-to-buy identification for the brand...and to purchase media at a local rather than a national rate.(David, 1986) In many cases, the amount set aside for co-op advertising exceeds the amount targeted for traditional advertising methods.(Crimmins, 1983)

Estimates by the Radio Advertising Bureau(RAB) suggest that over 8,000 manufacturers offer co-op programs of some form.(David, 1986) Of those 8,000 manufacturers, about 40 percent of them offer to pay more than half of the retailers advertising costs.(p. 16)

By its very design, cooperative advertising is meant to be a mutual support system between manufacturers and retailers. Each reaps the benefits of shared advertising efforts, with local retailers in some cases literally being paid by manufacturers to advertise. For example, if a

retailer runs a newspaper advertisement, the manufacturer may pay the entire cost of that advertisement (if conditions are met).

With so much incentive to use cooperative advertising, why, according to a 1984 study by Jarman, Spitzer and Felix, is almost half of all cooperative advertising allowances earned by retailers never claimed?

Approaching the problem from a broad perspective, it must be noted that inherent conflicts exist between the manufacturer and the local retailer any time they enter into a cooperative advertising agreement.

There is an obvious conflict of interest involved between the manufacturer and the retailer. The manufacturer is trying to sell his product, and he doesn't particularly care which local retailer the consumer buys it from. On the other hand, the local retailer wants the consumer to spend money in his store, with little concern as to which manufacturer's product the consumer buys.

A second conflict arises because some manufacturers do not actually want their co-op allotment to be claimed, especially by smaller retailers. (Crimmins, 1983) Many manufacturers are reluctant to see their money spent by any but their best customers--the biggest retailers. These are often the most efficient users of co-op, and the lack of small store advertising may not be crucial in many cases. (David, 1986)

Whatever the reason, or combination of reasons, the fact remains that the large amount of cooperative advertising funds that goes unspent each year represents a loss in the total advertising effectiveness of both parties involved. It also more than likely represents lost revenues for both the manufacturer and the retailer.

Purpose of the Study

Although manufacturers represent the main source of cooperative advertising funds, it is theoretically assumed that the decision to use or not use these funds lies with the retailer.

The purpose of this study is to gain insights into the thoughts and perceptions of retailers regarding cooperative advertising. It is hoped that this study will provide answers as to why retailers are failing to claim money that they have earned and which has been purposely set aside to help them. Also of question is whether increased co-op efforts by media will result in increased co-op claims and expenditures by local retailers.

Need for the Study

There is an obvious need for this study, due to the fact that so much money and manpower is being expended by manufacturers and media in an effort to take advantage of the potential benefits of cooperative advertising. The

fact that so much money goes unclaimed each year suggests that the cooperative advertising system as a whole, has a problem.

The results from this study are helpful to those manufacturers who want to increase usage of their co-op program by the small retailer. The study highlights problem areas of cooperative advertising as seen by those who have decided not to use it.

This study should also be useful to media companies, the majority of whom have made special arrangements to go after the unspent co-op money. Knowing the problems which exist for retailers to use cooperative advertising, media companies can work with manufacturers to help lessen these problems, thereby resulting in more co-op money being spent on media as a whole.

CHAPTER II

THE NATURE OF COOPERATIVE ADVERTISING

Although much of the advertising we see and hear is transmitted on a national or regional basis, it is all received locally. Cooperative advertising, by its very nature, is designed to be a collaboration between national or regional advertisers and local advertisers. It was created as a way for the national advertiser to aid the local advertiser in reaching the consumer.

Cooperative Advertising Defined

The American Marketing Association has developed a widely accepted definition of advertising:

Advertising is any form of nonpersonal presentation of goods, services or ideas for action, openly paid for, by an identified sponsor. (Journal of Marketing, 1968)

Webster's New World Dictionary refers to the word cooperative as a joint operating agreement between two or more parties to reach a common objective.

Based on these two individual definitions, the phrase cooperative advertising is open to many diverse interpretations. (Fraser, p.42) However, the generally

accepted meaning of cooperative advertising in today's advertising industry can be summarized as follows:

Cooperative advertising denotes any arrangement under which a product or service is brought to public notice over the names of both a supplier and any intermediary who comes between that supplier and the ultimate purchaser of the product or service. (Crimmins, 1983)

This definition is quite broad because cooperative advertising has come to encompass such a broad spectrum of practices. An effective definition for cooperative advertising covers the relatively new practice under which a supplier places advertising over a retailer's name, as well as the traditional and far more common practice under which a supplier pays a retailer for all or part of the retailer's cost for placing his own advertising. The definition accounts for the fact that suppliers of services, as well as manufacturers of products, offer cooperative advertising. It covers programs between suppliers and their wholesalers who subsequently offer programs to retailers, as well as those between manufacturers of industrial equipment and their distributors in which no retailer is involved. In addition, this definition covers programs offered to insurance agents and travel agents, who are not normally perceived as retailers. It recognizes that co-op programs exist between suppliers and some retailers who are in no sense their customer, as in the case of ingredient manufacturers who pay for retail advertising of end-use

products featuring their branded ingredients, or in another example, of cotton farmers who support a fund used to encourage department stores to run advertising of apparel made with cotton. Also to be included are arrangements between credit card companies and hotels, restaurants, airlines, etc., under which the credit card company shares the cost of advertising that co-features the credit card itself and the business that accepts it. And finally, it recognizes that a considerable amount of the money that is spent on what is now generally alluded to as cooperative advertising, does not go into advertising as such, but into such other areas of promotion as in-store display.

A close examination of the rationale behind cooperative advertising reveals that it is not a specialized type of advertising technique. Instead, it is actually a financial arrangement under which two businesses agree on how the costs of mutual promotion are to be defrayed. As one begins to acknowledge cooperative advertising as a financial agreement it becomes understandable that the Federal government has come to have an involvement in its use; that many retailers believe that the co-op budget is their own money to use as they wish; and that there is contention between suppliers and their customers over what the objectives of a retail ad should be. (Crimmins, 1983)

It is possible that the struggle to improve this financial arrangement has stimulated some retailers to

engage in dubious practices, such as double billing and other forms of fraud, and to persuade media to join them in these practices.

While a manufacturer's national advertising may do a great job of convincing the consumer to buy the product, it will not tell the consumer where to buy the product and will not give the consumer a reason to go into a store and buy the product right now. Retail advertising will do this, and manufacturers are willing to pay for that advantage.

Manufacturers usually pay for the retailer's advertising up to a set percentage of the amount of the merchandise the retailer has bought over the past year. For example, a typical plan might call for 5 percent of the retailer's past purchases to be reimbursed for advertising purposes. This basis for creating a co-op fund is called the "accrual".

A 5 percent accrual on a retailer's \$10,000 merchandise buy accrues \$500. If it's a 50-50 plan, the retailer must spend \$500 of his own money to get the manufacturer's \$500.

Categorization of Cooperative Advertising

In classifying co-op advertising, Fraser groups the technique into three general categories:

1. Vertical co-op between suppliers (manufacturers or their agents) and the firms who sell their products (retailers, dealers, jobbers, wholesalers).

2. Ingredient co-op, provided by producers of raw materials or base products, to manufacturers who use their products. A steelmaker, for example, may offer a program which advertises both the finished good and the steel that went into it.

3. Service co-op, which includes offers by manufacturers to organizations servicing their products; offers by manufacturers to organizations renting or leasing their products; franchisers who offer co-op funds to franchisees.

Development

Cooperative advertising is not a purely American phenomenon, nor is it a new technique. In fact, it is widely used in many countries, and was common in many industries in the United States in the nineteen twenties and thirties. One manufacturer (Warnaco) has a program in its files dated 1904, indicating that this particular technique was in use at least as early as the turn of the century. (Crimmins, 1983)

The history of cooperative advertising, from its beginnings, has been subject to many diverse influences. A partial list includes:

- The Clayton Act of 1914 inspired many grocery manufacturers to substitute "promotional allowances" for the discriminatory discounts outlawed by that Act.

- The Robinson-Patman Act of 1936 impelled manufacturers in many industries, who had been giving advertising allowances to favored customers, to offer those allowances more widely.

- The shortage of consumer goods during World War II caused many companies to drop their co-op programs in the early forties.

- The increasingly wide divergence in the late forties and early fifties between local and national rates in newspapers prompted a number of toiletries manufacturers to turn their national newspaper advertising budgets into cooperative advertising programs under which they paid the retailer at national rate, letting him keep whatever he saved on the lower local rate which he paid.

- The development in the early fifties of techniques to determine the actual rates paid by retailers in daily newspapers (which had previously been private information) resulted in the emergence of the first of the services specializing in auditing co-op advertising invoices (the ACB Co-op Advertising Auditing and Payment Service, now ACB Co-op Management Services). This made many suppliers feel more secure about offering co-op advertising programs.

- The creation of a Cooperative Advertising Committee by the Association of National Advertisers in the early fifties provided a focal point for exchange of information on co-op advertising among suppliers, retailers and media, and helped to bring cooperative advertising into the marketing mainstream.

- The issuance in 1960 by the Federal Trade Commission of its first set of Guides for Advertising Allowances and Other Merchandising Payments and Services gave many manufacturers the assurance that they could operate practical programs while staying within the law. This assurance was fortified by revised Guides issued in 1969 after the Supreme Court's decision in the landmark Fred Meyers case, and by a further revision in 1972.

- Beginning in the mid-sixties, individual newspapers became aware of the vast potential of co-op advertising dollars as a source of revenue. A new job category was born when some of them appointed cooperative advertising coordinators to go after these funds. By the late sixties, a number of individual newspaper co-op advertising coordinators formed an

organization to exchange information about available programs called The Newspaper Advertising Co-op Network (NACON). Not long afterward, the Newspaper Advertising Bureau named an executive to work with this group, and to spearhead the co-op advertising efforts of the newspaper industry. By the early seventies, other media began to follow the lead of the newspapers; for many years now, there have been organized efforts to secure co-op advertising among newspaper, radio, television, magazine, outdoor, yellow pages, and other media. One effect of all this media activity has been to encourage more companies to enter upon cooperative advertising programs, and to encourage more retailers-- particularly smaller retailers-- to take advantage of these programs.

- Since 1970, the growth of interest in cooperative advertising by agencies has resulted in the development of programs under which, through the use of agency facilities, some suppliers are now using co-op funds to place advertising for the retailers rather than giving them money to place their own. The use of this technique has provided suppliers with much greater control over their programs than they previously enjoyed. At the same time, it has made it easier for small retailers to participate in cooperative advertising, and for large retailers to make use of such media as radio, television, magazines and outdoor.

- One of the newer developments is that in recent years individual media organizations and advertising agencies have been devising and proposing new types of co-op programs for suppliers, in the hope that the resulting budget will be spent with them. This has resulted in some of the most innovative and constructive new programs, probably because the authors have been exposed to much greater variety of techniques than any supplier would be likely to encounter while operating within the confines of his own industry.

Legal Aspects of Cooperative Advertising

Formal involvement of the Federal government in cooperative advertising did not begin until 1936, but the informal history of that involvement begins with the

enactment of the Sherman Anti-Trust Law of 1890, which had as its objective, the prevention of monopoly and the encouragement of competition. In 1914, this law was amended by the Clayton Act, which prohibits preferential price treatment.

In 1936, the Robinson-Patman Act was passed as an amendment to the Clayton Act. One of its purposes was to plug a loophole that had been found in the Clayton Act. Until the passage of the Robinson-Patman Act, a supplier who wanted to favor one customer over others could meet the requirements of the Clayton Act by selling to all customers at the same price. However, by giving the favored customer something called a "promotional allowance," the supplier could produce a functional price advantage for him over those competitors to whom such promotional allowances were not offered.

The Robinson-Patman Act was designed to curb these practices. This was made plain in the recommendations of the Senate Judiciary Committee when the passage of the Act was being considered in 1936. The Committee's report on the pending legislation stated:

Still another favored medium in the granting of oppressive discrimination is found in the practice of large buyers to demand, and of their sellers to grant, special allowances in purported payment of advertising and other sales promotional services.... Such an allowance becomes unjust when services are not rendered as agreed and paid for, or when the payment is grossly in excess of its value or when in any case the

customer... is thus enabled to shift to his vendor substantial portions of his own advertising cost, while his smaller competitor, unable to command such allowances, cannot do so. (Crimmins, 1983, p. 9)

Although the original focus of the Act was aimed at the grocery industry, its effects have spread far beyond the relationships of grocery suppliers, wholesalers and retailers. It now encompasses the relationships of all suppliers of products or services who sell to customers for resale, as well as the activities of retailers who accept cooperative advertising programs, and of the media where that advertising appears.

The parts of the Act that are especially pertinent to cooperative advertising are Sections 2(d) and 2(e). These are related provisions which prohibit a seller from granting promotional allowances, services or facilities to a customer in connection with the resale of his products, unless such promotional assistance is made available to all competing customers on proportionally equal terms. Section 2(d) is applicable when a supplier makes payments for promotional services performed by his customers, while Section 2(e) applies when the supplier himself furnishes promotional services to his customers. In addition, where promotional payments are not used by customers for the purpose for which they were granted, or where the amounts greatly exceed the cost of the services performed, they may be challenged as an indirect price concession under Section 2 (a) of the Act.

Finally, Section 2(f) prohibits a buyer from receiving or inducing discriminatory prices, but does not prohibit him from inducing and receiving discriminatory promotion allowances, services or facilities. The Federal Trade Commission however, which is charged with responsibility for enforcement of the Robinson-Patman Act, has successfully employed Section 5 of the Federal Trade Commission Act to prohibit the knowing inducement or receipt of discriminatory promotion allowances, services or facilities.

By May 1960, a sufficient variety of cases had been adjudicated under this Act to enable the Federal Trade Commission to issue its first clarifying set of Guides for Advertising Allowances and Other Merchandising Payments and Services. A second version of these Guides, with a moderate number of changes, was issued in 1969, after the Supreme Court handed down its decision in the landmark Fred Meyer case (discussed later). This second version is sometimes called "the Fred Meyer Guides." A few very minor revisions were made to these Guides in 1972.

The general purpose of the Guides for Advertising Allowances and Other Merchandising Payments and Services is to give an indication of what the Commission is likely to look upon as the basis for a complaint against a supplier, retailer or medium.

The guides cover legal aspects of issues which suppliers, retailers and media must face on a day-to-day

basis. They cover such areas as competition, determination of customers, program availability and price restrictions. The following are key sections of these Guides which affect suppliers who have co-op advertising programs:

All Retailers Who Buy a Product, Either Directly or Indirectly, Are Considered to Be Customers of the Supplier of that Product.

This is the primary area clarified by the Fred Meyer case. Prior to the Supreme Court decision in that case, many suppliers took the position that their only customers were those retailers and wholesalers to whom they sold directly. This meant that these suppliers felt they could offer promotional help to the handful of large retailers who bought directly, without making a proportionally equal offer to the small retailers who bought from their wholesalers. In addition, they argued quite correctly that they did not have to make a proportionally equal offer to the wholesalers, because wholesalers do not compete with retailers.

In the Fred Meyer case, a prominent retailer, based in Portland, Oregon, was charged with inducing and receiving promotional allowances that were not made available to those competing retailers who bought through wholesalers. The

fundamental issues presented by the defense were summarized by the court, as follows (Crimmins, 1983):

1. That "the wholesalers in this case are not competing customers because they do not compete with Meyer."

2. That "the retailers who do compete with Meyer in the resale of the supplier's products are outside the protection of section 2(d) because they are not customers of the suppliers."

For all practical purposes since 1968, all indirect buying retailers who buy a supplier's product for resale, and compete with direct buying retailers, are considered to be his customers. The revised Guides issued in 1969, and amended in 1972, reflect that view, and under the Guides the supplier has to assume the responsibility for notification to all such indirect buying retailers of any promotional allowances, if they compete with other retailers who have the opportunity of receiving these allowances from the supplier.

In light of the Fred Meyer decision and the revised Guides that were issued after that decision, there is no question that a retailer who buys the supplier's product through such intermediaries as wholesalers, distributors, brokers, etc. is the supplier's customer, when that retailer competes with direct buying retailers. On the

other hand, counsel for companies in the travel packaging field, or the insurance industry, that sell through such "retailers" as travel and insurance agencies, commonly take the position that since they do not sell a commodity, and these agencies do not buy for their own account, they cannot be considered the suppliers' customers.

A number of ingredient manufacturers offer programs under which they share in the cost of retail advertising of manufactured items when such advertising gives a certain amount of emphasis to a branded ingredient from which that product is made. The marketing thrust of such programs is to relate the ingredient in the consumer's mind with quality products sold by high prestige retailers. Therefore, the program is generally confined to advertising that features well-known national brands of the end product, and is usually offered to only one or two prestige retailers in a handful of major markets. The Commission felt that this kind of program resulted in an economic advantage to the major stores not available to their smaller competitors, and the fact that this advantage was being offered by some of the largest corporations in the country made it tempting to try to stretch the Fred Meyer decision to include this situation.

The commission's original answer in the set of new Guides they proposed in July 1968, was:

A seller of raw materials who wishes to promote through retailing customers finished products which include his raw material may not make allowances for such promotion available to some retailing customers unless he makes such allowances available on proportionally equal terms to all retailing customers competitive in the sale of the same type of finished product. (p. 15)

However, this wording was eliminated in the new Guides when they were finally published in May of 1969, at which time the Commission indicated that it would handle the issue of ingredient producers in a separate set of Guides at some future date. Part of the reason for the change was the discovery of the existence of co-op programs among producers of natural ingredients such as cotton, wool, and linen. If the Commission held that retailers who bought a product made with a manufactured ingredient were the customers of the manufacturer of that ingredient, it would have to hold that retailers were also the customers of American cotton farmers and citrus growers, Australian wool growers and Irish flax farmers.

WHOLESALEERS AND DISTRIBUTORS

Wholesalers and Distributors Are Held to the Same Requirement as Suppliers

Guide 2 defines a seller, subject to the provisions of the Act, as "anyone (manufacturer, wholesaler, distributor,

etc.) who sells products for resale." In addition, Guide 13 clarifies the wholesaler's obligation.

All Services and Facilities Are Covered by the Law

Guide 5 covers services and facilities provided by the supplier to the retailer, as well as services furnished by the retailer for which the supplier makes payment to the retailer. The Guide also lists the following examples of such services and facilities:

- * Any kind of advertising
- * Handbills
- * Window and floor displays
- * Demonstrators and demonstrations
- * Catalogs
- * Display and storage cabinets
- * Display material
- * Special packaging or package sizes
- * Accepting returns for credit
- * Prizes or merchandise for conducting promotional contests

It is Best that the Plan Be in Writing

Guide 6 makes the specific statement that, "If there are many competing customers to be considered, or if the

plan is at all complex, the seller would be well advised to put his plan in writing." (p. 17) Moreover, the stipulations on notification to the customers that are included in Guide 8 could probably not be met if the plan were not in writing.

The Plan Should Offer Proportionally Equal Terms

Guides 7 states that:

No single way to proportionalize is prescribed by law. Any method that treats competing customers on proportionally equal terms may be used. Generally, this can best be done by basing the payments made or the services furnished on the dollar volume or on the quantity of goods purchased during a specified period. OTHER METHODS WHICH ARE FAIR TO ALL COMPETING CUSTOMERS ARE ALSO ACCEPTABLE. (p. 18)

There is nothing in this section which dictates that allowances must be based on dollar volume or quantity of goods purchased.

The Seller Has a Positive Duty to Inform His Retailers about the Plan

Guide 8 states that "the seller should take reasonable action, in good faith, to inform all his customers of the availability of his promotional program." (p. 21) It then provides an explanation of the methods the seller can use

that will be acceptable to the Commission as proof that he has complied with the law.

**The Plan Must Be Available to All Competing
Customers on a Practical Basis**

Guide 9 makes the specific statement that the plan "should not be tailored to favor or discriminate against a particular customer or class of customers, but should in its terms be usable in a practical business sense by all competing customers." (p. 22) Specific examples of plans that might be construed as having been tailored to discriminate are provided.

The Guide stipulates that assuring that the plan is available to all competing retailers on a practical basis may require "offering alternative terms and conditions to customers for whom the basic plan is not usable and suitable." This clearly implies that a supplier can have, and indeed in some cases should have, separate programs for different types of customers, provided that all the offers he makes are proportionally equal.

The Supplier Is Not Required to Be Sure that All Retailers Participate

Guide 9 limits the supplier's responsibility for seeing to it that all retailers participate. In one example of a plan that calls for "uniform, reasonable certification of performance by the retailer," it states that if some small retailers do not participate because they are reluctant to process a reasonable amount of paper work, the failure of the small stores to participate "is not deemed to place a manufacturer in violation." In another section of the same Guide, there is the clarifying statement that, "When a seller, in good faith, offers a basic plan, including alternatives, which is reasonably fair and nondiscriminatory, and refrains from taking any steps which would prevent any customer, or class of customers from participating in his program, he shall be deemed to have satisfied his obligation to make his plan functionally available to all customers, and the failure of any customer or customers to participate in the program shall not be deemed to place the seller in violation of the Act." (p. 24)

Restrictions on Retail Pricing Should Be Avoided

Many manufacturers who are not at all concerned with the prices at which their retailers sell their products, are

very much concerned about the way the retailer advertises their products, specifically about the tendency some retailers have to use a product as a loss leader, thus damaging its image in the marketplace.

In order to avoid contributing to the financing of such advertising, these suppliers may stipulate in their co-op programs that, although they are not concerned with the actual price at which the product is offered, they will not pay for advertising containing copy indicating that the product is being offered at less than the store's regular price. On the basis that this is a copy requirement, not a pricing requirement, some counsel take the position that this is a completely legal stipulation.

The Seller Has an Obligation to Check the Customer's Use of Payments

Guide 11 states that "the seller should take reasonable precautions to see that services he is paying for are furnished and also that he is not overpaying for them." In 1972, the Commission added the following footnote to Guide 9:

Allowances that have little or no relationship to cost or approximate cost of the service provided by the retailer may be considered to be in violation of Section 2(d) or subject to the prohibitions of Section 2(a) of the amended Clayton Act, such as an allowance of \$1 per case of goods purchased if the retailer furnishes a display or provides specific shelf space,

or a promotional allowance of 10% of purchases during a specific period of time if the retailer places an ad of at least 3 column inches in a newspaper. In addition, a customer that induces such allowances may be proceeded against under Section 5 of the Federal Trade Commission Act. (p. 21)

When a customer is allowed to retain any part of the promotional allowance for his own use, he has automatically received a price reduction not granted to other customers who spent the entire allowance for the purpose for which it was offered. Moreover, he has received that special price reduction in the guise of a promotion allowance. One of the chief objectives of the Robinson-Patman Act was to prevent the use of special allowances in purported payment of advertising and other sales promotion services.

Only Those Customers Who Sell Within the Same Market Area Are Considered "Competing Customers"

Guide 12 makes it clear that a manufacturer can limit his plan to any selected market area, or group of market areas.

"Meeting Competition" Can Be an Effective Defense

Guide 16 stipulates that:

A seller charged with discrimination in violation of Section 2(d) or Section 2(e) may defend his actions

by showing that the payments were made or the services were furnished in good faith to meet equally high payments made by a competing seller to the particular customer, or to meet equivalent services furnished by a competitor to the particular customer. (p. 23)

Cost Justification Is Not Acceptable As a Defense

Guide 17 states that:

It is no defense to a charge of unlawful discrimination in the payment of an allowance or the furnishing of a service for a seller to show that such payment, service or facility could be justified through savings in the cost of manufacture, sale or delivery. (p. 23)

CUSTOMERS

The Customer's Responsibility

In all likelihood the origin of discriminatory advertising allowances did not arise from suppliers thrusting money into the hands of their customers, but rather from customers loudly demanding these payments from their suppliers and threatening negative economic consequences if their demands were not met. Therefore, the Robinson-Patman Act includes a prohibition against inducing or receiving such discriminatory payments.

Guide 14 is titled "Customer Liability" and specifically warns the customer against inducing or knowingly receiving "payments or services which are not

available on proportionally equal terms to his competitors." It warns specifically against a number of common practices among retailers, such as:

- * Unauthorized deductions from merchandise invoices
- * Requests for special allowances for new store openings or store anniversaries
- * Invoices rendered at vendor rates to suppliers whose plans offer payment at net rates
- * Invoices rendered at inflated rates for store catalogs, special TV programs or other forms of store-created promotion, so that the supplier ends up paying a greater share of the retailer's cost than his program offers to pay
- * Failure to pass along to the supplier rebates received from media, resulting in the retailer paying the media at a lower rate than the rate charged the supplier

Responsibilities of the Media

These responsibilities are dealt with in Guide 15, which is titled "Third Party Liability for Double Billing." Double billing can be defined as the practice under which a medium issues two bills to the retailer for the same advertising, with a different set of charges on each bill, so that the retailer can pay the smaller amount and charge his supplier for the larger amount. Under this practice the supplier unwittingly pays this retailer a greater share of his cost than paid to other retailers in the market who do not engage in double billing.

Double billing can be stimulated by retailers, media people, or by individual entrepreneurs. In every case, however, the medium must comply. This Guide makes it plain that such compliance will expose the medium to the sanctions of Section 5 of the FTC Act.

Summary. Over the years, the Robinson-Patman Act has received a great deal criticism from suppliers, customers and media. This criticism usually arises when an individual businessman is prevented from doing something which his competitors may consider unfair. Despite its critics, it appears as though the Act will continue to govern the business community for the foreseeable future. (Crimmins, p.28)

To be involved in co-op without fear, the businessman should avoid any activities which would expose his company to violation of any laws enforced by the FTC. To avoid the possibility of receiving complaints, he should be able to provide written proof that his company has lived up to all legal requirements. The supplier should make sure that nothing he does results in an economic advantage to larger retailers. And finally, everyone involved in co-op, the suppliers, the customers, and the media, can assume that if a proposed action is unethical or unfair, it is likely to raise questions in the minds of an FTC investigator.

Co-op Advertising Trends In Various Media

Newspapers. All indications are, that despite the inroads made by other media, newspapers are still getting a larger share of the co-op dollar than any other medium. It is still the medium most used by retailers. Although the newspaper share has declined in the past ten years, the actual amount of co-op money spent in newspapers has shown an enormous growth, in part because of inflation in rates, but primarily because of the steady growth of cooperative advertising during those years. (Wilcox, 1985)

One logical reason for the continuing dominance of newspapers is the tremendous effort put into securing cooperative advertising by the individual newspapers and by various industry groups. Other reasons are as follows:

- Hundreds of daily newspapers have specialists called "Co-op Advertising Coordinators," who bring to the attention of local retailers cooperative advertising programs offered by individual suppliers, who see to it that the advertising appears in conformity with the supplier's offer, and who help retailers to bill and collect for this advertising. (Crimmins, 1983)

- An industry-wide association called NACON (the Newspaper Advertising Cooperative Network) has been formed among these Co-op Coordinators which, through seminars held several times a year in various sections of the country, exposes its members to the thinking of major retailers and suppliers, and acquaints them with the successful efforts of their fellow members. (p. 129)

- The Newspaper Advertising Bureau has appointed a special group, headed by a Vice President, whose sole function is to encourage cooperative advertising in

newspapers through contacts with suppliers, retailers, agencies and newspapers themselves. This group coordinates the efforts of NACON and individual newspapers; it trains newspapers staffs in the nuances of cooperative advertising, and has developed several specific techniques to make it easier for co-op advertisers to spend their budgets in newspapers. (p. 129)

- A large number of daily newspapers now offer CAP (Co-op Action Plan) rates for manufacturers who want to place dealer-listing ads in order to get small retailers to use their allowances. Until the development of CAP rates, all newspapers took the view that the retail rate could be earned only by ads appearing over the name of a single local retailer; the national rate, usually a great deal higher, applied to ads co-featuring the names of two or more local retailers. This practice of charging rates much higher than the retailer paid for his own advertising made it exceedingly difficult for the newspaper to persuade small retailers to pool their co-op dollars in order to place dealer-listing ads. These prohibitively high rates also diminished the enthusiasm of the suppliers for this kind of promotion. (p. 130)

-The NAB developed the Newspaper Co-op Network, which makes it possible to place a single insertion order for dealer listing ads in any or all of 1,745 daily newspapers. (p. 130)

- The NAB has developed the Retail Co-op Recovery program under which newspapers receive constantly updated information on the co-op programs offered by manufacturers in specific categories. (p. 131)

Despite all these activities, other media have made substantial gains in what was once the newspapers' almost exclusive preserve. One major factor is the advantage that competitive media have in soliciting the budgets spent on supplier controlled programs. Their advantage is directly attributable to the fact that in all media other than

newspaper, the supplier can place advertising at the same rate as the retailers, provided that he uses an agency that knows the co-op business. Only newspapers insist that the same ad over the same retailer's signature be paid for at a much higher rate if someone else does the placement. (p. 131)

Magazines. The growth of cooperative advertising in magazines has paralleled the growth in the number of publications offering regional and metropolitan breakouts. As these special editions have become available, the opportunity for getting revenue from co-op advertising has increased. As awareness of this opportunity has increased, more magazines have made it possible to buy segmented shares of their circulation. (Horen, 1983)

Co-op advertising in magazines takes two forms:

- Dealer listing ads that accompany an ad placed in the regional or metropolitan issue by the supplier. For example, the product is featured on a four-color page. Facing it, and occupying anywhere from one third of a page to an entire page is the list of dealers carrying the product.

- Single signature. These are usually placed over the name of a major retailer whose purchases are sufficient to underwrite the cost of an ad in the segment of the magazine's circulation that matches the retailer's marketing area. In addition to the store signature, the individual ad may include other information such as store slogans, lead-ins and pricing.

Both of these approaches involve supplier controlled programs. Many publications also sell space directly to larger retailers in the markets covered by these special issues.

One of the reasons for the prevalence of supplier controlled programs in magazine advertising is the relatively high production costs in this medium. A problem faced by any retailer who wants to use a segmented issue of a magazine is that his cost of production, particularly for 4-color advertising, may be out of proportion to the media cost to reach only a fragment of the magazine's readership. Suppliers can solve this problem for their customers by creating a single ad, which through customizing for individual stores, can be used for a number of retailers in a variety of publications, and also in individual market breakouts across the country. This reduces the cost per retailer to so small an amount that many suppliers choose to pick up the entire production cost, and require the retailer to pay only for his share of the actual media expenditure.

Another factor that has operated in favor of supplier controlled programs in the magazine field is the fact that, in most cases, the supplier can get a better rate than the retailer. This results from the supplier's frequency discount or lower rate, which he receives for buying space in several regional or metropolitan issues. Retailers, on

the other hand, buy, usually on a one-time basis, only those issues that match their markets.

A major effort to sell magazines as a cooperative advertising medium has been organized by Media Networks Inc. It puts together magazine networks for advertisers, using both national and cooperative advertising funds. This technique has been used extensively by insurance companies that place advertising for their local agencies, and has also been used by soft goods and hard goods manufacturers. (Horen, 1983)

A final aspect of this medium is the growing number of city and regional magazines now being published in many of the major markets. In some markets, this medium gives access to the very highest segment of the market in terms of both discretionary income and the inclination to spend that income, and represents a new and productive outlet for the use of co-op funds.

Radio. Radio is basically a local medium. This means that the radio industry as a whole doesn't receive much national advertising, and as a result, spends lots of time and energy in pursuit of co-op money. Its natural prospect is the local retailer who has the bulk of co-op money that is offered under customer controlled programs. It is not surprising then, that after newspapers, radio is the medium that works hardest to see that co-op funds are utilized.

As a result of this effort, the number of radio co-op plans has increased ten-fold from 500 in 1962 to more than 5,000 in 1986. (David, 1986)

Other factors which have helped to increase radio's success in obtaining co-op dollars include:

- All station members receive a Co-op Organizer to help them set up and run a co-op sales department. (Crimmins, 1983)

- The Radio Advertising Bureau (RAB) publishes the Radio Co-op Source Book, a directory of co-op plans for which radio is an acceptable medium. This directory is updated twice a year and includes information on each supplier's program, such as the amount of his allowance, the percentage of the retailer's cost eligible for payment, and the name of the individual in charge of the program. (p. 139)

- A monthly cases cassette is created that includes interviews with manufacturers explaining their co-op programs and urging their retailers to use their co-op allowances on radio, and demonstrations of the radio commercials being offered. The stations use these cassettes as door-openers with retailers who carry the interviewed manufacturer's merchandise. (David, 1986)

- The RAB maintains a "hotline" that any member station can call when it needs information on any aspect of co-op in radio. (p. 16)

With this amount of trade organization activity, it is understandable that a substantial number of radio stations now have full time or part-time Co-op Advertising Coordinators. A study of 317 radio executives revealed that 32 percent of them have a special salesperson dedicated to

co-op advertising sales. Also, 82 percent of those who have taken this step feel that the effort has paid off.

(Crimmins, 1983)

One of the biggest advantages of co-op radio advertising is the adaptability of radio to relatively inexpensive packages that can be used by retailers whose co-op allowances are not very substantial. The low cost of radio production also makes it possible for station co-op coordinators to come up with promotional concepts that intrigue the small retailer sufficiently to overcome his reluctance to use co-op funds.

Most of the activities referred to above are devoted to customer controlled programs, under which the retailer places advertising and is then reimbursed, in whole or in part for his expenditure. Radio, especially in the larger markets, is receiving a substantial amount of revenue from companies with supplier controlled programs, and with effort by national representatives, could probably receive much more.

Television. Television stations started in pursuit of co-op money later than the other media for a variety of reasons. Nevertheless, the Television Bureau of Advertising has made some efforts along the lines made by its competitors to steer co-op money in the direction of its members. These efforts include:

- Publishing a directory of co-op plans that accept TV as a medium
- Providing information to its members on co-op advertising generally
- Encouraging stations to name co-op advertising coordinators.

In addition, TVB employs an executive whose function includes overseeing these activities. As a result, more stations are paying attention to this source of revenue than in the past. (David, 1986)

Some stations have had success with smaller stores by tagging spots supplied by manufacturers with slides or local announcers, but most TV station efforts seem to be concentrated on the larger retailers in the market because of the higher costs for both TV time and production.

A substantial share of the co-op money that goes into television comes from supplier controlled programs, under which manufacturers create and place the advertising. This may be in the form of national spots with dealer tags or may consist of spots customized for the individual retailer with his own store prices and themes featured.

Outdoor. Under the direction of the Institute of Outdoor Advertising, the outdoor advertising industry has been making a serious effort to get co-op revenue. As a result, outdoor advertising is catching on as an active

ingredient in many manufacturer's cooperative advertising programs. For example, General Motors' Buick Motor Division provided 958 free, full-color posters to its dealers as part of its dealer outdoor program. In the first month of the next year, more than 1,100 poster were ordered by Buick dealers. (Maizel, 1984)

One of the medium's strongest selling points is that outdoor advertising boards can be bought to fit the precise area from which an individual retailer draws his customers.

Among the suppliers who have used this medium effectively are Nissan Motors, Panasonic, Apple Computers, Frigidaire, Suzuki, Goodrich Tires, Honda and Owens-Corning building products. Some of the companies contribute the entire cost of the outdoor schedule, while others pay all production costs and require the retailer to pay for the board rental. Still others pay 100% of production costs and 50 percent of board rental. (Delano, 1983)

In addition to the activities of the Institute of Outdoor Advertising, two other associations are actively engaged in encouraging co-op advertising in the outdoor industry. One of them is the Eight-Sheet Outdoor Advertising Association, whose member firms specialize in this particular medium. The other is the Shelter Advertising Association, whose members sell space on bus shelters throughout the country. (Crimmins, 1983)

Cable Television. Cable television seems to be a natural medium for co-op advertising, because of its segmentation of individual markets. This is beginning to attract local retail advertising, which is where many co-op dollars end up.

Cable is only now becoming accepted as a general advertising medium, and it is expected that before long significant amounts of co-op revenue will find its way into cable. In order to see that this happens, the Cable-Television Advertising Bureau has assigned a Vice President to oversee the delivery of all co-op information to its member cable system sales people. The CAB publishes a Co-op Guidelines Pamphlet for constant reference by cable sales people, and has a full-time co-op director who works with system sales people via the CAB "Co-op line." In addition, CAB plays an active role in aiding cable sales people to design plans and promotions for individual retailers.

Telephone Directories. This medium has always received a substantial amount of co-op revenue from suppliers who list local dealers under their trade names. This was the first form of supplier controlled cooperative advertising. (Crimmins, 1983)

One of the things that make trademark listings especially attractive to suppliers is that they can be bought directly by the supplier through a centralized

operation that makes it possible to place advertising in a large number of directories with a single order against which a single payment can be made. Individual retailers can be billed for their share of the costs.

In recent years various efforts have been made by Yellow Pages publishers to persuade individual retailers to place display ads co-featuring one or more individual brands and to persuade suppliers to share in the cost of this advertising under customer controlled programs. The first part of this task is relatively simple because the retailer only has to be persuaded that a large space ad will attract more traffic for his store than a small space trademark listing. The second part is a bit more complex because the supplier has to be persuaded that a substantial number of people who look in the Yellow Pages for the name of a dealer who sells a product have not yet decided what brand of that product they want to buy, and that retail display advertising can persuade them to buy the supplier's brand.

Until the divestiture/system breakup at AT&T. Efforts to increase co-op spending in yellow pages were led by a national Co-op Committee headed by AT&T on which the various Bell System Companies were represented. Subsequently, these functions were taken over by the American Association of Yellow Pages Publishers, a trade organization whose membership is open to all publishers of Yellow Pages, both Bell and non-Bell companies. (Crimmins, 1983)

Like other media trade associations, this group publishes a co-op source book of programs under which Yellow Pages advertising is acceptable. It also provides training programs to help members get more co-op revenue and work to promote the acceptance of Yellow Pages for display advertising.

College Publications. Because it is such a completely localized medium, practically every college newspaper receives a substantial amount of retail advertising, and a certain amount of that advertising is funded by co-op programs. Some of the national representatives who sell space in these publications have been actively helping their clients get more co-op dollars. (Co-op News, 1981)

In addition to college newspapers, advertising also appears in the Directory of Classes, a publication most colleges distribute through the registrar's office to students and faculty prior to each registration period. This publication is available for co-op advertising of products that have special appeal to this audience.

CHAPTER III

PROBLEMS WITH THE CO-OP SYSTEM

Frank Hennessy, vice president of co-op advertising for the Newspaper Advertising Bureau stated in 1980 that, "If properly used, co-op advertising will be the single most important factor toward success or failure of corporate marketing plans now being prepared for the 1980's."

Indeed, co-op advertising has become a force in the field. Although there are no definite statistics on how much co-op money is in the marketplace, most people seem to agree on two things. First, everyone seems to feel that there are enormous amounts of money designated each year for co-op, and secondly, that there are huge amounts of earned co-op money that is never claimed.

In a 1983 Marketing and Media Decisions article, Laura Jereski estimated that co-op advertising grew from \$3 billion in 1975, to an astounding \$8 to \$10 billion in 1983. (p. 139) She attributed this growth primarily to the state of the economy. In the same year however, Bogash & McGoldrick estimated co-op advertising funds at \$2 billion allocated annually. In 1986, Miles David listed annual co-op allotments at a conservative \$5 billion, choosing to remain somewhere in between highest and lowest estimates, and opting instead to stick with the figure that Ed Crimmins suggested in his 1983 book. (David, 1986) This discrepancy

in figures suggests again that no one really has a solid grasp on exactly how much is allocated each year.

Cooperative Advertising Usage Figures

Who is using the cooperative advertising funds that are used, and where are they being used? In a 1980 Marketing Communications article, George Donahue provided some statistics on co-op advertising use. At the time, he found that most retail merchants received from 35 percent to 55 percent of their locally placed advertising budgets from manufacturer co-op dollars. (p. 62) What was surprising to Donahue however, is that 36 percent of 154 manufacturers surveyed had less than 49 percent of their available dollars actually used, 18.7 percent had between 50 percent and 74 percent used, while 34.5 percent had over 75 percent used. (p. 62) Donahue goes on to suggest in his 1980 article, that in the near future, much higher portions will be claimed. However, Miles David points out that in 1986 almost 50 percent of available money is still going unspent. (David, 1986)

Why Is the Money Not Claimed?

The reasons cited for non-use of cooperative advertising funds can be summed up from the retailers point of view very simply: Too much paperwork. (Marketing Studies, 1976) A more in-depth look into the situation

yields more practical reasons why the money is not spent. These reasons were given by Ed Crimmins: the unnecessary complexity of the manufacturer's program, the lack of time and knowledge of the retailer regarding advertising, the lack of budget by the retailer to run an ad campaign, and the desire of the manufacturer not to have his money spent. Laura Knight provides more good reasons for the existence of unspent co-op money in her 1986 article in Sales and Marketing Management. She lists the trouble the retailer faces in finding out what his accrual is, the problem of paying for the advertising up front while waiting weeks or months for reimbursement, and having to use scripts which are much more favorable to the manufacturer than the retailer as three other key reasons that money may go unspent. (Knight, 1986)

Budgeting for Cooperative Advertising

In a 1984 Sales and Marketing Management article, Ed Crimmins suggests that the basic method employed by most manufacturers in budgeting for cooperative advertising relies on a reverse marketing principle. This principle states that the manufacturer will pay some percentage of a retailer's cost of advertising up to a certain amount of his purchases during a certain time period. (1984) Crimmins gives several reasons as to why so many manufacturers choose to use this method:

It is safe. It doesn't raise any question about the Federal Trade Commission guides for advertising and merchandising allowances.

It is simple. Any salesperson can explain it. Any buyer can understand it.

It is what retailers are used to dealing with. The problem that Crimmins finds with this budget setting technique is that it flouts one of the basic principles of marketing: "Advertising creates sales". When a company uses this technique, they are expecting sales to create advertising. (p.98)

Suggestions for Co-op

The present state of affairs involving cooperative advertising leaves a lot to be desired. Fortunately, there is no shortage of advice on how individual manufacturers can improve their situations.

Jereski (1983) suggests that the particular industry that a manufacturer is in plays an important role in whether or not his co-op program is successful. She believes the following characteristics make for a better co-op industry: shopping goods (vs. convenience goods), infrequently purchased goods, relatively expensive goods, considered purchases, hidden attributes, low brand loyalty, personal service retailing, selective distribution. (p. 145)

Brown (1982) states that a successful co-op advertising program is one which: flatters the retailer, integrates the manufacturer's and retailer's selling message, creates a selling event, is a superior execution of an outstanding idea, is consistent from medium to medium, and if

appropriate, is flexible enough to accommodate multiple product lines and/or promotions.

Local and National Tie-ins

One of the most important reasons for using cooperative advertising is to tie-in the national campaign with the local campaign. By doing this, according to Howard and Zeigler, the manufacturer receives an association with the neighborhood retailer which localizes a national brand message by tying it in with a familiar store name in each locality (a friendly, personal image), or, perhaps, a local seasonal activity or cultural event. The retailer benefits from the tie-in by receiving national brand association which may help to boost his own image. (1984)

Regarding the local/national tie-in, Allen, in a 1982 speech to the Association of National Advertisers suggested that it is essential that the sales message be the same on both the national and local level in order to allow the consumer the benefit of understanding the product and where he can see and purchase the product. If used in this way, he feels that both images benefit from co-op advertising.

According to Arnold Ferber, many retailers have expressed annoyance at the lack of integration between national advertising campaigns and local co-op programming. If the timing is not right, it may cause a negative backlash. In Feber's estimation, when a manufacturer runs a

national campaign it creates a prior demand for the product, as a result he feels that retailers need three to four months lead time to tie in.

Jack Brown suggests also that today's retailers are too sophisticated to settle for a few tail-end seconds of a cut-down national spot. In other words, he feels that retailers want a more equal share of commercial space, reflecting a truly cooperative effort. (1982)

The Media

Most co-op authorities will still agree that newspaper receives the majority of money spent on cooperative advertising, but they will also agree that what was once the sole territory of the newspaper industry, is fast becoming fair and attainable game for all other forms of media. In a 1985 Sales and Marketing Management article, Jack Brown argues that other media in combination with newspaper can have a dramatic impact on the course of sales during a promotional period. He goes on to state that newspaper is a shopped medium, and as such, tends to talk to the store's current customers. Conversely, he explains, broadcast can provide a greater impact by reaching everyone, and creating a sense of urgency to build traffic. This suggests that neither medium can be totally effective on its own.

In 1986, Miles David wrote the self-proclaimed first-ever book for media sales people about co-op. The book

concentrates on acquiring co-op monies approved for use on radio, and is distributed to stations by the Radio Advertising Bureau. The purpose of the book, as stated by the author, is to show how co-op advertising can help develop significant new advertising revenue. The book suggests that over 90 percent of today's co-op plans approve radio as an advertising medium. The radio industry is moving heavily into co-op as a means of making up for the money that is usually not available through national advertising. Jereski suggests that the trend in co-op media activity will be an increase in the use of radio, citing a 15 percent usage rate by retailers in 1981, and an 18 percent usage rate in 1983. (1984)

In a 1983 Inc. article, Sara Delano notes that many high-tech companies are using co-op to support a lot more than traditional media costs. Chief among this non-traditional media are video cassettes and outdoor advertising. (p. 31)

Outdoor advertising only recently is becoming known as a "traditional" co-op advertising medium, and as may be surmised from the previous statement by Sara Delano, high-tech companies are the heaviest users of outdoor. Apple computers has been making effective use of outdoor since 1979; choosing to blitz small markets in conjunction with local computer retailers. In his 1984 Sales & Marketing Management article, Martin Everett writes that some of the

most versatile co-op programs are cropping up in the computer market. He attributes this to the drive to gain distribution by suppliers of both hardware and software who eagerly court dealers with strong promotional support. This freedom of versatility often includes outdoor advertising.

(p. 80)

Agencies

As co-op budgets grow larger, many advertisers and manufacturers are looking more closely at how their advertising money is being spent. It is now becoming necessary to enlist professional management to handle these funds. This usually involves the use of an advertising agency.

According to Sanford Maizel, many advertising agencies have reservations about entering into co-op situations. He suggests that co-op is a complex, and to most agencies, obscure speciality, requiring a lot of extra work. Maizel suggests that after reviewing these factors, an agency accustomed to making a fifty market media buy may consider co-op to be penny ante. (1984)

Because of its growing importance, many agencies have decided to move into co-op despite their reservations. Young & Rubicam has its Cato Johnson division, which is working on the Ford Motorcraft car care centers, backed by full agency support. This division creates dealer

associations in a market by market program that has spread from two major markets in 1981 to twenty-one in 1983. (1984)

The W. B. Doner agency has produced a number of co-op TV spots for its national advertising accounts, including Wrangler jeans and Bali bras. Some agencies even go so far as to assume responsibility for auditing and payment of resulting dealer claims.

Dick Bogash writes in his 1983 Marketing and Media Decisions article that the emergence of broadcast and magazines as major co-op forces enhances the agency's role in the use of co-op advertising. He writes that while important, putting together a dealer-listing newspaper ad requires significantly less creativity and expertise than creation, production and placement of 30 second spots. Creativity and expertise which can hopefully be provided by an advertising agency.

All sources used in this review of literature on cooperative advertising agree on one point: for cooperative advertising to reach its true economic potential, its usage by the local retailer must increase. Not all sources offered a solution to the problem, but those who did predict increased opportunities for manufacturers, media companies, and retailers.

Therefore, one of the essential bodies of research necessary for the improvement of cooperative advertising is

a collection of information about those people it is designed to help.

Building upon the information gained about manufacturers and media concerning cooperative advertising, this study concentrates on the views and perceptions of small local retailers concerning this advertising technique.

CHAPTER IV

METHODOLOGY AND FINDINGS

Description of the Study

This thesis provides insight into the views and perceptions of small local retailers regarding cooperative advertising and its non-usage. Research questions are these:

1. How does the small retailer view the effectiveness and efficiency levels of cooperative advertising as it relates to him?

2. Do the large non-usage figures generally quoted by manufacturers regarding cooperative advertising represent obtainable revenues for media companies?

To gain background on this situation, a series of preliminary discussions was conducted with sales representatives from radio stations, television stations, and the largest local newspaper. Personal interviews were then conducted with local retailers. The interviews focused on the knowledge and usage levels of the sample members, and their views and opinions regarding the role of cooperative advertising in the advertising and marketing strategy of the small retailer.

Population

Retailers carrying like product lines were chosen. Such retailers are more likely to have the same types of cooperative advertising opportunities available to them.

Independent clothing retailers were selected as a source from which to gather the sample because of their abundance in the Knoxville area, the ability of the owners/managers of these stores to make independent decisions regarding use of accrued co-op funds, and the fact that these establishments customarily carry the same brands of products as their competitors and would have many of the same co-op programs available.

Individual respondents were chosen systematically from the yellow pages of the Knoxville, Tennessee telephone directory. Every third retailer was selected as a potential participant. Twenty-eight contacts were made before securing the 20 completed interviews needed to provide measurable results.

Data-Gathering Method

Each respondent was asked a combination of open and closed-ended questions in a personal interview situation.

Interpretation of Findings

Findings were interpreted by the researcher based on overall responses to each question, and by responses to each

questionnaire as a whole. Answers were compiled and tabulated in simple percentage form.

The Limitations of the Study

As with all sample surveys, there is a risk that the respondents will have significantly different characteristics from those of the non-respondents.

Despite this limitation, the results of the study should provide a general understanding of the decision making process of the people involved in using or not using cooperative advertising.

More specifically, the results of the study should provide an indication to media companies as to the future success of their increased efforts to attain the cooperative advertising funds earned by the small local retailer.

The Personal Interview

The personal interview was chosen for several reasons. Personal interviews offer the most flexible means of obtaining information, since the face-to-face situation lends itself easily to questioning in great depth and detail. (Wimmer & Dominick, 1983) Secondly, personal interviews allow for greater control over the data gathering situation. For example, it may be necessary to control the sequence of questioning, the individuality in responding, or the tendency of the respondent to change answers once given.

Finally, the personal interview provides a greater opportunity to evaluate the validity of the information obtained by observing the respondent's nonverbal communication. (Gordon, 1980)

Limitations of the personal interview include high costs, interview bias, need for trained interviewers, and in many cases, difficulty in locating respondents. In this case, however, conducting personal interviews was less costly than other alternative methods of surveying due to the close proximity of the respondents to the interviewer. Research was conducted on the personal interview process prior to conducting the interviews.

Findings

This study analyzes the responses of 20 local clothing retailers from the Knoxville, Tennessee area (a list of retailers appears in the appendix) regarding their views and perceptions of cooperative advertising.

For the purposes of this study, all data were tabulated in simple percentage form. Figures were rounded to the nearest even percentage. The questions were as follows:

1. Could you explain how cooperative advertising works to another retailer?

Question number 1 of the 15 question survey was a qualifier question designed to determine knowledge level of the respondent regarding the subject of the survey. A

positive response to question 1 was interpreted as denoting a high knowledge level, while a negative response prompted further probing by the interviewer in order to assess approximate knowledge level. Only respondents with some general knowledge of the subject were allowed to participate in the study.

Although all twenty respondents had some knowledge of cooperative advertising, only 70 percent felt they understood it well enough to explain how it works to another retailer. Question 1 provides an assurance that lack of knowledge is not a significant factor in cooperative advertising non-usage. The remaining questions and results are presented below.

2. Where did you obtain your knowledge about cooperative advertising? (Figure 1)

Forty-five percent of the respondents named manufacturers as their primary source of cooperative advertising knowledge, and 35 percent felt that they had gained most of their co-op knowledge through personal research. The remaining 20 percent of the respondents received most of their co-op knowledge from the media.

The results of this question suggest that manufacturers may not be making a strong effort to educate the small retailer about co-op. Over half of the retailers surveyed obtained their knowledge about co-op from a source other than the one that provides him with cooperative advertising

funds. Interestingly, of the six respondents who felt that they could not explain cooperative advertising to another retailer, five obtained their knowledge on the subject through a source other than a manufacturer.

3. What degree of effort do you make to use cooperative advertising funds that you have earned? (strong, moderate, none) (Figure 2)

Only 10 percent of the respondents feel that they make a strong effort to use their accrued cooperative advertising funds, 60 percent felt as though they make a moderate effort to use their accrued co-op, and 30 percent of the respondents claimed that they make no effort at all. Both of the respondents who claim to make a strong effort to use their accrued co-op are associated with slightly larger stores than those of the other respondents.

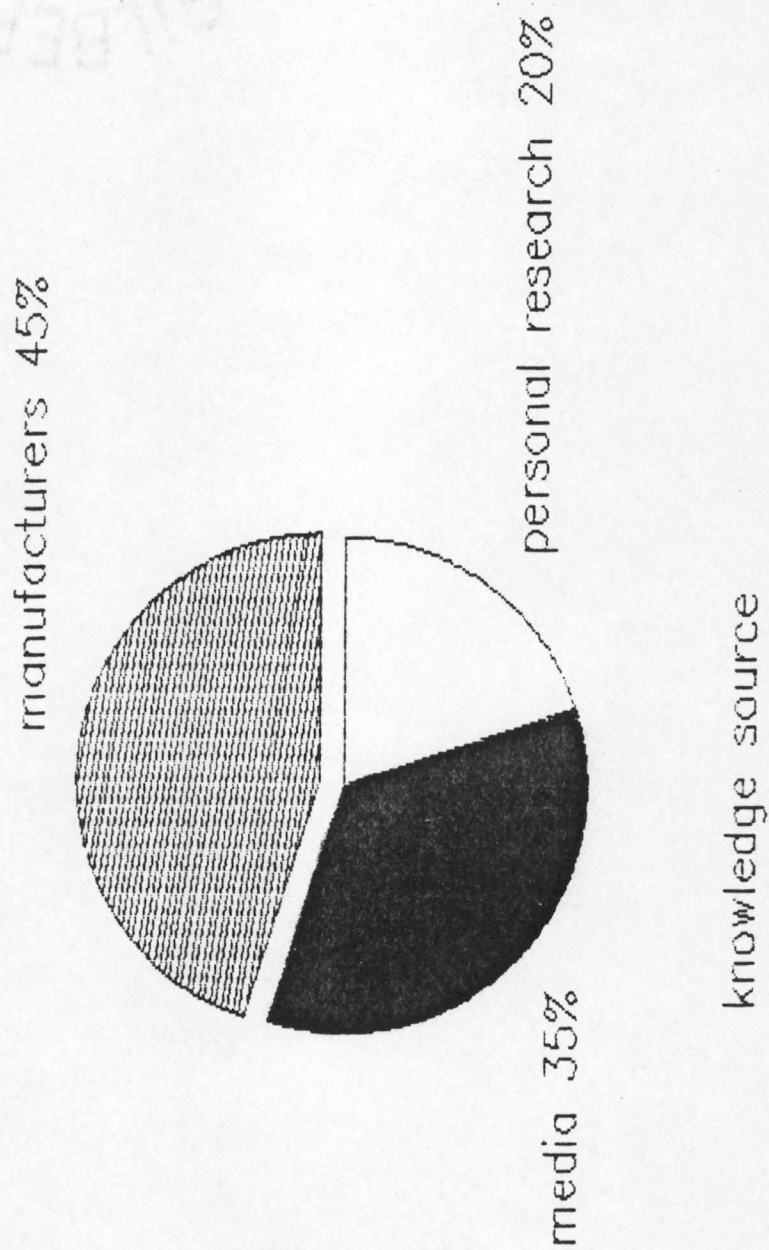


Figure 1. Co-op knowledge source.

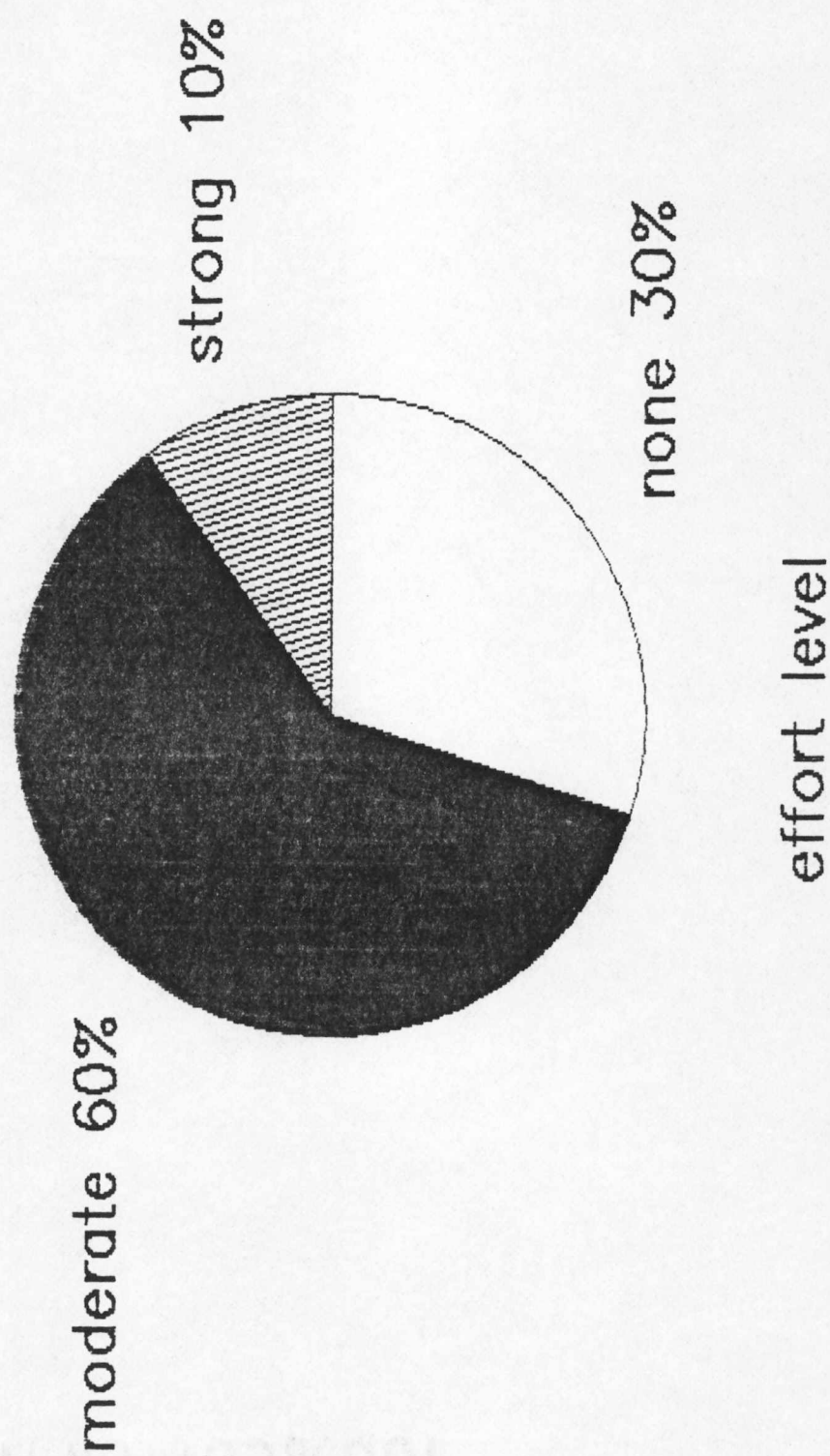


Figure 2. Effort level.

The majority of respondents do make some effort to use their accrued co-op funds. The most significant comparison here however, is that three times as many respondents claimed a total lack of effort to use their earned co-op as did those who claimed a strong effort to use it.

4. Approximately what percentage of your advertising budget comes from your cooperative advertising participation?

The average portion of the respondent's advertising budget that is accounted for by earned cooperative advertising funds is 8 percent, with 70 percent of the respondents receiving 10 percent or less from cooperative advertising participation.

5. What factors have most affected your decision to use or not to use your earned cooperative advertising funds?
(Figure 3)

The majority (60 percent) of the respondents base their decision on whether or not to use their available co-op funds on financial factors; 20 percent base their decision on the amount of paperwork required; 10 percent on the complexity of the program; 5 percent on the ease of reimbursement; and 5 percent base their decision on seasonal considerations.

In regards to financial factors, respondents referred specifically to program participation levels and accrual rates, the two factors which determine how much the retailer will receive from the manufacturer as a supplement to his advertising expenditure.

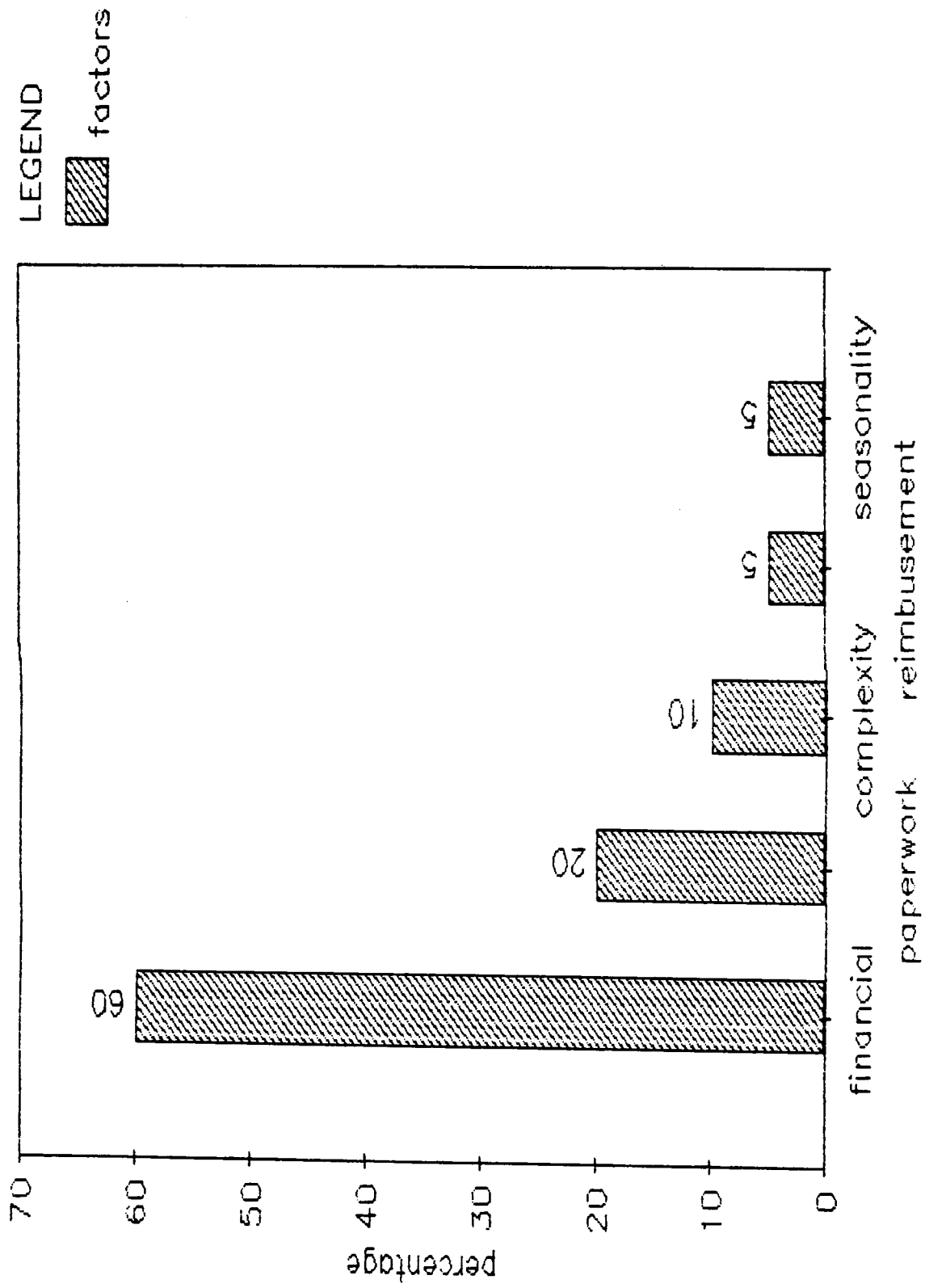


Figure 3. Factors affecting usage

6. In what media do you most often use your earned cooperative advertising funds? (Figure 4)

Sixty-five percent of the respondents named newspaper as the media most often used. Newspapers were followed distantly by radio with 10 percent. Five respondents (25 percent) found that the question did not apply because they did not use their earned co-op funds.

7. Have you been contacted by any media salespeople from a type of media other than the one you were using at the time of the contact regarding the use of your cooperative advertising funds?

Ninety percent of the respondents have been contacted by a media representative from a medium other than the one which they were using at the time concerning their co-op usage. This finding supports earlier statements that substantial effort is being made by most forms of media to increase revenues derived from cooperative advertising funds of local retailers. This is attempted by encouraging the non-user to begin using, or by convincing the user to switch media.

8. Have you ever made first contact to a media company regarding the use of your earned cooperative advertising funds?

None of the respondents has made first contact to a media company specifically regarding the use of their cooperative advertising funds.

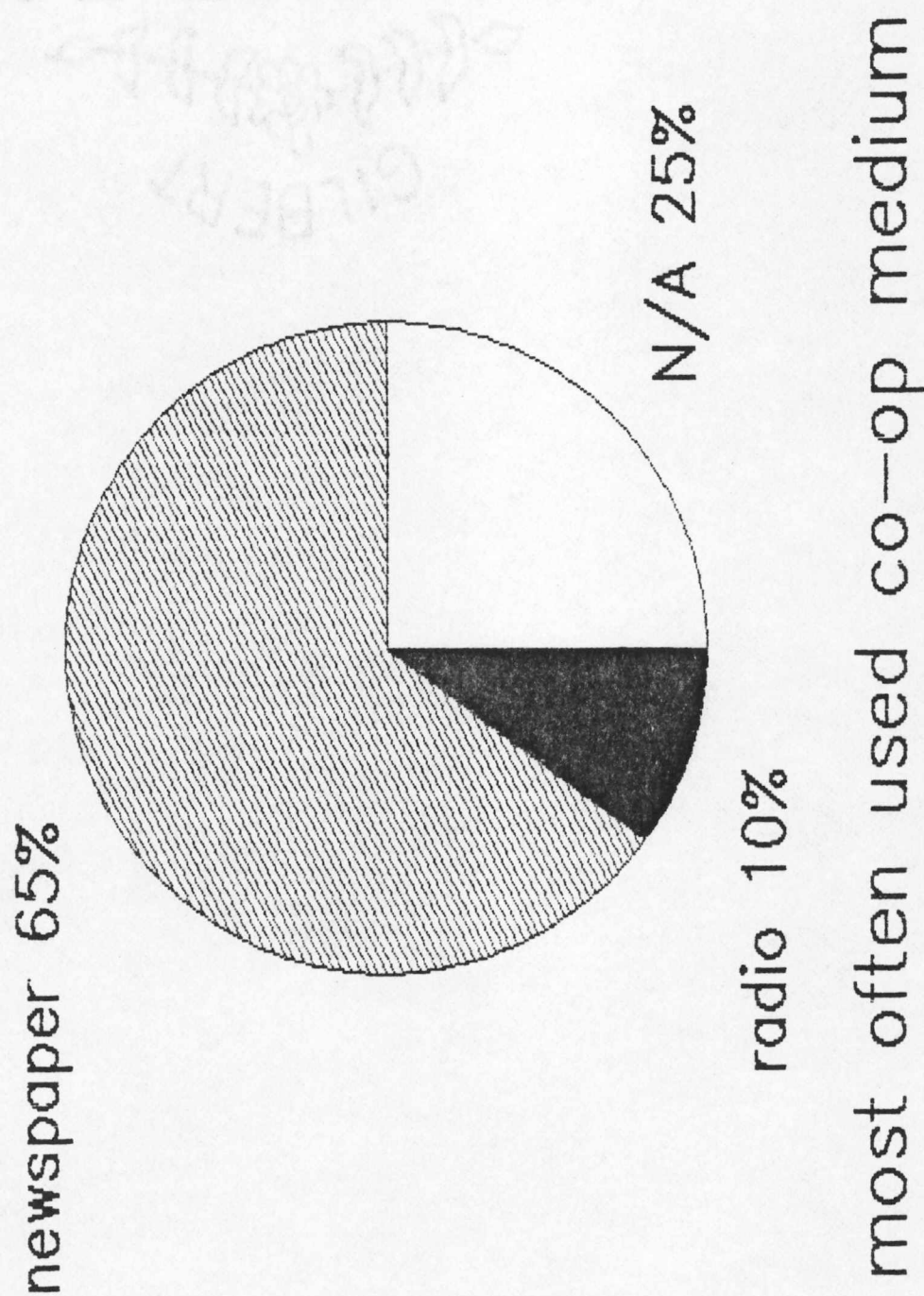


Figure 4. Frequency of usage.

9. What media has been most active in pursuing your cooperative advertising funds?

Radio has been the most active medium in pursuit of the small retailer's cooperative advertising dollars in 45 percent of the cases. Newspaper was reported as being most active in 35 percent of the cases. One respondent listed TV as the most active medium in pursuit of their earned co-op dollars, and no respondent listed outdoor.

This seems to be a logical finding for three reasons.

1. Radio and newspaper are almost always the two most efficient and affordable advertising media available to the small retailer.
2. Radio and newspaper are the media which manufacturers most readily accept as cooperative advertising media.
3. Radio is a relative newcomer to cooperative advertising circles, and as a result, is putting extra effort into securing any available co-op funds.

10. Have you recently made any changes in the media in which you choose to spend you earned cooperative advertising funds?

Question 10 revealed that while almost all of the respondents have been contacted by a form of media at a time when they were using another form, only 27 percent of them have made recent changes in the media in which they spend their cooperative advertising dollars.

This suggests that it is a difficult task to persuade a retailer to switch advertising media.

11. Have your total advertising expenditures increased as a result of using your earned cooperative advertising funds?

While most of the respondents make some effort to use their accrued co-op, in most cases, it has not affected the size of their traditional advertising budget.

12. What method of reimbursement do you find most favorable?

It was previously suggested to the researcher that this factor could be relevant as to a manufacturer's desire to have a retailer participate in his cooperative advertising program. However, results from the question showed an almost even split between the respondents who preferred to be reimbursed with merchandise discounts and those who preferred monetary reimbursement.

Interestingly, the two respondents who claimed to make a strong to effort claim all accrued co-op, and who had the highest percentage of their budget coming from co-op funds, preferred to be reimbursed with merchandise discounts.

13. Who fills out your co-op paperwork?

The manager/owner filled out the co-op paperwork for the store in over 70 percent of the cases. In many instances, the time of the owner/manager consumed by filling out co-op paperwork may be more valuable to the store than the reimbursement.

14. Do you currently use the services of an advertising agency, and if so, is the agency involved in your co-op use?

Many feel that the presence of an agency has a positive effect on the co-op usage level of a business. Ninety-five percent of the respondents said that they operate without the services of an agency. The only agency that was involved with a retailer was considered a house agency.

15. What is your overall feeling regarding cooperative advertising?

Answers to this question can be summarized by four common points.

1. Cooperative advertising is more beneficial to those for whom it was designed (medium to larger retailers).
2. Cooperative advertising is usually not a significant factor in the advertising strategy of the small retailer.
3. The size of the retailer determines the tone of his relationship with the manufacturer.
4. The time needed to handle cooperative advertising efforts may cause "retailer apathy".

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study has explored the concept of cooperative advertising from the perspective of the local retailer.

Through a review of literature the study has established that billions of dollars in earned cooperative advertising money go unclaimed every year. The study also outlined the increased efforts by the various media to participate spending of this cooperative advertising money.

Cooperative advertising is a financial agreement whereby two parties (usually a retailer and a manufacturer) agree to share the costs of advertising.

The data gathered through the review of literature on cooperative advertising revealed only speculation as to why this widely accepted business practice operates with such inefficiency. In addition, little information was found concerning any research efforts designed to better understand the problem from the retailer's point of view.

This study provides answers to the following research questions:

1. How does the small retailer view the effectiveness and efficiency levels of cooperative advertising as it relates to him?

2. Do the large non-usage figures generally quoted by manufacturers regarding cooperative advertising represent obtainable revenues for media companies?

The study includes a design tool for use in gathering data on the perceptions and views of local retailers regarding cooperative advertising, and sample survey results acquired from testing the design instrument.

The survey instrument includes questions involving knowledge level, usage patterns, and media decisions. The questions were developed with the manufacturer in mind, and also address the types of information that a media representative would like to know about his potential customers (retailers). Such information would become a valuable tool in trying to improve the current cooperative advertising situation.

This survey lays a research foundation upon which manufacturers and media companies can now build. Through the utilization of these efforts of listening to, and analyzing the comments of local retailers regarding cooperative advertising, manufacturers and media companies may be able to improve the design, thereby increasing usage.

Conclusions

Answers to the research questions, as well a number of other conclusions can be drawn from the results of the

survey. Responses to question fifteen tell us that the small retailer as a whole feels that cooperative advertising is not in his best interest. He tends to believe that co-op programs are more effective and efficient when used by the larger retailer. In answer to the second research question, the responses from survey questions three through eleven show that under the current circumstances, increased efforts by the advertising media to capitalize on the huge aggregation of unused co-op money will probably be unsuccessful until manufacturers make it more advantageous for the local retailer to claim his money.

The following are items which have led to this conclusion, as well as other significant findings:

1. General knowledge by local retailers of how cooperative advertising works is relatively high.
2. Less than half of the retailers received their knowledge about co-op from manufacturers.
3. Seventy percent of the retailers questioned make some effort to use their earned co-op funds.
4. Three times as many retailers surveyed claimed a total lack of effort to use their earned co-op as did those who claimed a strong effort to use it.
5. Seventy percent of the retailers questioned claimed that 10 percent or less of their total advertising budget resulted from cooperative advertising funds.

6. Sixty-five of the respondents named newspaper as the co-op media they most often use.

7. Seventy percent had been contacted by a media form other than the one they were using at the time of the contact.

8. Only 27 percent of the retailers have made a change in co-op media.

9. Radio is the most active media in pursuit of the earned cooperative advertising funds of local retailers.

10. Managers/owners fill out co-op paperwork in 70 percent of the cases.

The non-claiming of cooperative advertising funds has received little primary research to date. This survey may represent a beginning in investigating the facts involved in cooperative advertising non-usage as opposed to the myths and assumptions which presently abound.

It has been assumed that the local retailer is merely being negligent in his decision not to claim his earned co-op money. Many believe that he does not attempt to meet the requirements necessary for manufacturer reimbursement simply because he does not want to expend the effort.

These survey results clearly indicate that local retailers are generally knowledgeable about cooperative advertising and are thoughtful in their decision to use or not to use it. Sixty percent of the respondents named financial factors as the most influential factor in

determining whether or not to claim their earned co-op funds. Also, 70 percent of the respondents do make some effort to use their earned co-op funds when it is economically beneficial to them.

It must be concluded that this group of business people know what they are doing, and cannot be persuaded or coerced into actions that are not financially advantageous for them.

Recommendations

It is recommended that any manufacturer interested in increasing the number of small retailers who claim funds from his cooperative advertising program consider making adjustments based upon the results of this study.

The study indicates that the manufacturer should be sure to provide as much information to the small retailer about his program as possible. The manufacturer should make contact with a sample of the retailers who make little or no effort to claim their funds to find out why that is the case. In regard to financial factors such as participation level and accrual rate, there is not much that the manufacturer can do to give additional help to the small retailer, since he must make proportionately equal arrangements with all of his customers. He can, however, make an attempt to improve other factors named by the

respondents in this study, such as complexity of his co-op program, amount of necessary paperwork involved, and his program's reimbursement process.

According to the results of this study, by making improvements in any or all of the aforementioned areas, the manufacturer should expect to see some increase in the amount of participation in his co-op program by the small retailer.

It may be advantageous for the manufacturer to re-administer the survey to a sample of retailers with potential involvement with his particular program. A pinpointed survey such as this will result in specific data, which could prove to be more useful to an individual manufacturer.

Futher indications of the study are that media must make adaptations on current efforts to increase co-op usage by the small retailer. Robert Wilcox of Armstrong World Industries highlighted the problems of the media in 1983, and included some very definite advice for media companies going after unspent co-op money:

Forget about co-op that isn't being spent. Everyone talks about the co-op dollars that never get spent. Media reps are taught to lust after them. Forget them. There are darn good reasons why they aren't being spent. Not the least of these reasons is that the marketer doesn't want them spent. He's using all the dollars from the retailers who don't spend co-op to pay what he owes the retailers who do spend their entire fund. These unspent dollars from the smaller retailers offer him his only way of providing so many

dollars to those retailers who know how to advertise and whose ads bring people into the stores and move merchandise. Focus on the co-op dollars that are being spent. They're being spent right now. They're just not being spent with you. (Advertising Age, 1983)

Despite the logic of this statement, media companies continue to hound small retailers to claim their co-op funds.

If he is to be successful at increasing co-op usage by the small retailer, the media representative must begin to work more closely with the manufacturer to arrive at a situation that is beneficial for the retailer.

This study shows that it is difficult for a media company to persuade a retailer to participate in a co-op program which the retailer has already chosen to forego. It is also difficult for a media company to persuade a retailer to change the type of media that he uses.

With these observations in mind, it is recommended that media companies channel their efforts into making the cooperative advertising process as easy as possible for the retailer. It is not enough to suggest that the retailer use his earned co-op funds, it is becoming the media representative's role to help him obtain the money, and to use it wisely. The media representative should help the retailer keep track of financial matters involved in his co-op usage, he should keep him up-to-date on new co-op opportunities, and most importantly, he should work with

manufacturers to modify programs so that they work best for the individual retailer. The media company that accomplishes these tasks well should see increased revenues from cooperative advertising.

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APPENDIX

LIST OF RETAILERS

American Clothing

Ashby's

Branded Cargo

Cis' Clothes

Clothes by Mertie

Classy Lady

Deborah English

Fran Jenkins Boutique

Gertrudes

Jarrood's

Lady Too

Martha Lee's

Miller Brooke

Raley's

Rickies Petites

The Clothing Corner

The Colony Shop

The Daisy Patch

Watsons

Winfred's

VITA

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