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1982

SPEECH BACKGROUND

SPEAKER: Virginia Knauer

ORGANIZATION: National Retail Merchants Association

CONTACT PERSON: Tracy Mullin

TELEPHONE NUMBER: 223-8250 (Washington number)

EVENT: Annual Conference

LOCATION: New York Hilton, New York City

DATE AND TIME: January 11, 1982 2:15 p.m.

TITLE AND THEME OF SPEECH: Intro to panel, "The Profitability of
Consumer Affairs"

SIZE AND MAKEUP OF AUDIENCE: 300-400 from a broad range of retail backgrounds,
marketing, consumer affairs, general management

SPECIAL ARRANGEMENTS: Meet in Diana Room at Hilton with
Stanley Wiselman, Chrm of Consumer Affairs Committee, who
will direct you to Panel room

MEDIA ACTIVITIES: none planned

USOCA CONTACT: Pat Faley

634-4329

SPEECH TREATMENT

STAFF PERSON Pat Faley
PHONE NUMBER 634-4329
DRAFT DEADLINE 1/4

TITLE OF SPEECH Intro to Panel, "The Profitability of Consumer Affairs"
Panelists are John Goodman of TARP and David Schoenfeld of J. C. Penney's

MAKEUP OF AUDIENCE 300-400 from a broad range of retail backgrounds:
marketing, CEO's, consumer affairs, customer service, general management

LENGTH OF SPEECH: TIME 10 minutes PAGES ~~approx. 5~~ 7

MAIN THEME Consumer affairs is a necessary and profitable
business function.

BASIC OUTLINE -

Objective: To stimulate interest in consumer affairs activities among NRMA members.

- * Consumer affairs is alive and well
- * President Reagan supports consumer affairs
- * Consumer activists are no longer the "screaming outsiders" they once were
- * Consumer affairs is an integral part of government, business and the citizenry of this country
- * Consumer affairs is not philanthropy: it is a profitable business function
- * Retailers can improve their own consumer affairs programs by looking to the Department of Commerce OCA

INFORMATION RESOURCES

Harvard Business Review, Republican Party Platform
and "White House Review of First Year," VK Q&A interview in
"Retail Week" magazine.



UNITED STATES
OFFICE OF CONSUMER AFFAIRS
Washington, D.C. 20201

*Virginia:
I think this is
good. Do you agree?
Pat*

MEMORANDUM

To: Bob Steev *pb* Joe Dawson
From: Pat Faley *pb* through Roger Goldblatt
Subject: VK's Appearance before the National Retail Merchants
Association, January 11, 1982

I met with Tracy Mullin of the National Retail Merchants Association (NRMA) last week. Tracy is in charge of putting together the consumer affairs session over which Virginia will preside at NRMA's 71st Annual Convention at the New York Hilton, January 11 from 2:15 to 3:30.

Tracy has had some difficulty stimulating interest in consumer affairs among her member stores. Therefore she would like to have Virginia direct her session to address the issue "The Profitability of the Consumer Affairs Department." (This is pending approval from her New York office.) The format would have Virginia open with a 15 minute speech, then lead a panel of our choosing for 50 minutes, then sum up and close the session.

Before I spend time looking for panelists to fit the bill, I thought I'd better see if this idea agrees with you. Please let me know this week, if possible.

October 5, 1981

OK
10/9/81
VH

UNITED STATES
OFFICE OF CONSUMER AFFAIRS
Washington, D.C. 20201

December 3, 1981

Mr. David Schoenfeld
Consumer Advocate
J.C. Penney Company, Inc.
1301 Avenue of the Americas
New York, New York 10019

Dear Mr. Schoenfeld:

Thank you for accepting Virginia's invitation to speak during the National Retail Merchants Association (NRMA) Convention Consumer Affairs Session Monday, January 11 from 2:15 p.m. to 3:30 p.m. The conference will be held in the New York Hilton. I will call with the room assignment as soon as I receive it.

As we discussed, the topic will be, "The Profitability of the Consumer Affairs Department." Virginia will open with a brief presentation. John Goodman will follow with his research findings and specifically his formula for quantifying the value of the consumer affairs function. You will speak last with a 20 minute practical application of John's thesis. Virginia will sum up and close the session.

I've asked John to contact you to coordinate presentations and also to send you an outline of his speech for your reference. His telephone number, should you wish to reach him in the interim, is (202) 544-6312.

Tracy Mullin, my contact at NRMA, says that this session has historically been very popular with 300 to 400 participants the usual audience. We all looking forward to a productive, enlightening session for this year's participants.

If you have further questions, I may be reached on (202) 634-4329. Again, thank you.

Very truly yours,

Patricia Faley
Patricia Faley
Business Liaison
Federal Complaint
Coordinating Center

cc: Virginia Knauer
Bob Steeves
Joe Dawson
John Goodman



Increasing the Organizational Influence of Corporate Consumer Affairs Departments

Empirical research suggests that most corporate consumer affairs departments are not a part of the decision-making structure of their respective firms. The typical consumer affairs department appears to have little influence in management decisions that affect consumer satisfaction and welfare. As a result, it is of limited value for the consumer.

A reason for the isolation of consumer affairs from corporate decision making may be that the department's contribution to the firm's welfare is not well understood. By showing a significant contribution to company sales, the consumer affairs department would be in a position to gain influence in the profit-seeking organization. The article identifies the relationship between sales and complaint management within a marketing framework and develops objectives for complaint management that maximize the consumer affairs department's contribution to sales thereby enhancing the power base of the department within the business organization.

The past decade witnessed a rapid increase in the number of business firms with internal consumer affairs departments. Almost all major U.S. corporations competing in consumer markets now have a formalized organizational unit for the handling of consumer affairs. Ideally, these units should be vehicles for consumer influence in management decision-making and provide consumers with a direct channel for information and redress. They should also provide the firm with an effective early warning system concerning consumer problems and discontent [11, 16, 17, 21, 26]. In reality, however, empirical research has pointed out that most consumer affairs departments perform a rather isolated service [4, 10, 14, 17]. The typical department is not integrated within the decision-making structure of its organization and has little influence in such matters as advertising, product quality, pricing, and marketing.

Claes Fornell is an Associate Professor of Marketing at the Graduate School of Business Administration, The University of Michigan, Ann Arbor, Michigan.

The author acknowledges the helpful comments of Philip Kotler and Louis W. Stern at Northwestern University and C. A. Knook, Unilever, Ltd., England.

One likely reason for the limited consumer influence via the consumer affairs department is that the department's potential contribution to overall corporate objectives is not well understood. The relationship between profitability and the performance of corporate consumer affairs has not been examined and is often subject to question [11]. This is especially evident in an inflation-ridden economy where few operations within the firm escape increased cost justification pressures.

A familiar finding in the organizational behavior literature is that those who control the objectives and operations of a firm wield the most power. Generally speaking, the degree of power possessed by a particular organizational unit is proportional to its contribution to the well being (or profitability) of the organization. For example, the ability to cope with uncertainty [5, 13, 31] and control over critical resources [27] are two important bases of power. In order for a consumer affairs unit to acquire influence in corporate decision making, it is necessary for it to hold or obtain power bases that can be exploited in a manner consistent with both consumer interests and company profitability.

While the responsibilities, design, and organizational positioning of consumer affairs departments vary across corporations, consumer complaint processing is a central activity for most of them. The high frequency of reported consumer problems in the marketplace [3] makes the firm's response to consumer complaints important not only for compensating individual consumers, but, as will be demonstrated in this article, for improving company sales performance as well. It will be argued that the power bases available to consumer affairs relate, both directly and indirectly, to the control of one of the most critical resources of any organization—the customers. By defining the relationship between complaint management and sales performance, it is possible for the consumer affairs department not only to justify its existence in the profit-seeking organization but also to enhance its influence. Accordingly, this article will develop objectives for complaint management that maximize its sales contribution. In other words, it will be shown that the profit-seeking firm stands to gain in sales by giving its consumer affairs department increased responsibilities and more influence in marketing matters.

COMPLAINT MANAGEMENT DEFINED

Efficiency in complaint *handling* usually refers to the procedures involved and the steps taken to ensure rapid turnover of complaints, accurate and fair responses to consumers, and low complaint-processing costs. Reductions in the ratio of complaints to products sold are seen as favorable and complaint decrease is a common objective.

Complaint *management* is broader in scope. It differs from complaint handling in that it incorporates objectives that are explicitly linked to marketing and sales performance. Moreover, complaint management, as will be seen, does not automatically subscribe to the notion of complaint reduction as an objective, without first examining the firm's opportunity costs.

Voiced complaints are but one expression of dissatisfaction. Complaint management, as opposed to complaint handling, deals with the whole spectrum of consumer dissatisfaction responses regardless of whether they are voiced or not. It operates to minimize the harmful effects of consumer dissatisfaction on the firm, to analyze and address the marketing opportunities presented by consumer problems and to reduce consumer dissatisfaction.

With extended responsibilities and functions there are also increased operating costs. Just because good complaint handling promotes brand loyalty and positive word-of-mouth communication is not sufficient reason to justify the increased costs incurred by complaint management. Instead, complaint management should be expected to justify its existence as a managerial function within a profit-seeking organization in terms of its contribution to sales and profits. Towards that end, we will develop objectives of complaint management that augment the relationship between sales and complaint processing in such a manner that the long-term sales contribution is maximized. Under these circumstances, the organizational influence of consumer affairs is likely to be enhanced.

METHOD: A REDUCTIONIST APPROACH

Predicting and evaluating sales responses to marketing programs are essential parts of management theory and practice which have received considerable attention in the research literature. Among the

difficulties that continue to plague attempts to specify the results of marketing efforts are the isolation of effects and the indirect relationship to sales presented by many marketing activities.

While behavioral scientists have approached the problem of evaluating the effectiveness of marketing programs (and advertising in particular) by partitioning the consumer decision process into micro components or intervening variables (e.g., awareness, cognition and attitude), the sales variable, which is typically dealt with at a more aggregated level, has not been subject to similar analysis. Even when aggregation is confined to the individual brand level, the sales variable remains a crude summary statistic of consumer purchase behavior.

As will be shown in this article, it is possible to partition the sales variable into more meaningful components of consumer behavior, without resorting to non-behavioral constructs. Identification of these components will facilitate construction of sales response models and, in this particular case, help determine the potential sales contribution of complaint management.

In the same way as the sales variable can be viewed as a whole or a set that can be divided into parts or components, the consumer complaint variable can be thought of as a part of a dissatisfaction set. The method to be employed here belongs to the reductionist model of analysis in that it approaches the sales-complaint management relationship by partitioning the sets into smaller parts in order to find identical or related elements. If one set contains elements that are present in the other set, the magnitude of the communality defines the potential sales contribution of complaint management. If some parts are identical, while others are distinct, analysis turns to the within-set relationships between common and distinct parts in the dissatisfaction variable.

Specifically, the methodology involves the following steps:

1. Identify sales variable components.
2. Identify consumer dissatisfaction variable components.
3. Specify the intersection and relationship between the above variables.

Many marketing activities are assumed to have an indirect or more long-term bearing on sales. Marketing research for purposes of aiding management decision-making is in this category. Similarly,

complaint management, in its handling of consumer communications, is in a position to extract potentially valuable information on consumer problems. The value of this information for long-term sales performance is largely determined by its power to help identify market opportunities and eliminate specific origins of consumer dissatisfaction. Consequently, the indirect complaint management-to-sales relationship will be examined in the following steps:

1. Specify the information necessary for dissatisfaction elimination.
2. Specify the information necessary for market opportunity identification.
3. Examine each dissatisfaction variable component in terms of its information value.

Assuming that consumer dissatisfaction response can be influenced by management strategy, the objectives of complaint management will be determined by arranging the dissatisfaction variable components so that both direct sales and information value are maximized. Following the identification of sales components in the next section, we turn to the identification of consumer dissatisfaction components and the intersection between these two sets of variables.

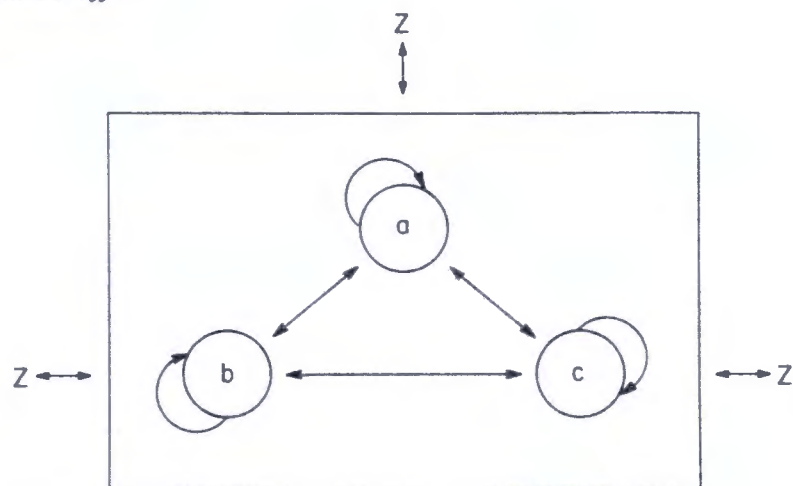
MARKET TRAFFIC AND SALES COMPONENTS

Development of successful marketing and sales strategy depends heavily upon the firm's ability to identify and influence the flows of customers into and out of its franchise and in and out of the market. In the context of this analysis, these flows are termed *market traffic*. They include the entering of new customers, brand shifting or change of patronage, and product class transfers. Changes in the rate of purchase are equivalent to changes in the speed of traffic. It is this traffic that firms seek to control, for it is the ultimate determinant of growth, stagnation and decline.

To illustrate how market traffic affects the sales performance of an individual company, let a , b , and c be competing single-brand firms in market M . Let Z denote all other markets and V indicate the speed of traffic within M . Figure 1 illustrates the flows that constitute the traffic in market M , and some possible strategies of demand stimulation for company (brand) a .

Firms with substantial shares of growing markets may elect to

FIGURE 1
Market Traffic.



Possible strategies for a:

- attract outside traffic ($Z \rightarrow a, b, c$)
- direct outside traffic ($Z \rightarrow a$)
- direct inside traffic ($b, c \rightarrow a$)
- increase the velocity of traffic $+ V(a \rightarrow a); + V(a, b, c \rightarrow a, b, c)$
- retain intra-market traffic ($a, b, c \nrightarrow Z$)

concentrate marketing efforts toward the promotion of product category rather than individual brand, and thus stimulate primary demand ($Z \rightarrow a, b, c$). In stagnating markets, competition for market shares becomes more intense and primary focus is often shifted to the capture of customers at the expense of competing organizations. More resources are allocated to stimulate selective demand ($Z \rightarrow a$) to encourage brand switching ($b, c \rightarrow a$) and brand loyalty ($a \rightarrow a$), to increase brand usage [$+\Delta V(a \rightarrow a)$], and to prevent product class transfers ($a, b, c \nrightarrow Z$).

The sales performance of an individual company is determined by the market traffic it generates. Consequently, the components relevant to the sales performance of company a can be written in set theory notation as:

$$\Omega_{Ma} = [(a \rightarrow a); (b, c \rightarrow a); (Z \rightarrow a)] \quad (1)$$

Compared to the more traditional and aggregate view of the sales variable, the market traffic conceptualization offers some distinct

advantages: It is dynamic and describes the sources of sales performance in a managerial strategy framework. The relationship between sales and marketing variables is made explicit in the formulation of strategies to direct, attract, restrict, and retain market traffic as well as increase the speed of traffic.

Using the market traffic terminology, the criteria for determining direct (short-term) and indirect (long-term) sales contribution of an organizational activity or unit are:

1. Its capability for controlling market traffic. (direct contribution)
2. Its capability for assisting in market traffic control by furnishing valuable information. (indirect contribution)

In order to specify the intersection of sales and consumer dissatisfaction response and start developing objectives against which the criteria above will be measured, the next task is to identify the components of dissatisfaction response.

MARKET TRAFFIC AND CONSUMER DISSATISFACTION

From the firm's point of view, the purpose of complaint management is to handle consumer dissatisfactions in such a way that their negative and harmful effects on the firm are minimized and its opportunities for growth and competitive advantage identified.

It seems reasonable to assume that almost all consumer complaints have their roots in some experienced dissatisfaction or problem. Complaining is one of several possible consumer reactions to problems arising from satisfaction blockage. All such problems, however, cannot be traced to product malfunctions and breakdowns or to predatory or fraudulent business conduct. As illustrated in one of the few major empirical consumer dissatisfaction studies [3, see also 28], many consumer grievances can best be explained by ignorance, misunderstandings or disagreements.

While certainly relevant to complaint management, it is not necessary for the purposes of this paper to go into the details of the psychosocial processes leading to dissatisfaction. It is the responses to the frustration caused by it and their implications for the firm that are of primary interest.

The consumer's dissatisfaction with a product, service, or other elements in a firm's marketing mix can be expressed in a variety of

ways, ranging from organized boycotts to complete behavioral inaction. It is useful to consider three categories of consumer dissatisfaction response: market action, complaining and inaction. Market action refers to brand switching, purchase termination, and reduction in purchase rate. Complaints can be directed at a firm or registered with a third party. Inaction, of course, simply means that the dissatisfied consumer does nothing to resolve the problem.

Let Ω_{Da} denote the set of possible consumer dissatisfaction responses that relate to firm (brand) a . With the notation previously introduced, the distinct dissatisfaction responses are:

$$\Omega_{Da} = [-\Delta V(a \rightarrow a); (Z - a); (b, c - a); (C_a); (C_c); (I)] \quad (2)$$

where $-\Delta V(a \rightarrow a)$ = reduction in purchase rate

$(Z - a)$ = purchase termination or product class transfers

$(b, c - a)$ = adverse brand shifting

(C_a) = complaint directed at a

(C_c) = complaint via third party or collective consumer protest

(I) = inaction = $(a \rightarrow a)$

Ω_{Da} includes all relevant components of consumer dissatisfaction response. Since inaction is defined as a "response," Ω_{Da} represents the total amount of dissatisfaction directed at company (brand) a , regardless of whether or not the dissatisfaction is overtly expressed. While there may be other ways of categorization, the components in Ω_{Da} are exhaustive.

Having defined both sales and consumer dissatisfaction response in terms of their parts or components, it is clear that the elements shared by the two sets identify the direct relationship between complaint management and sales:

$$\Omega_{Ma} \cap \Omega_{Da} = -\Delta V(a \rightarrow a) \cup (Z - a) \cup (b, c, -a) \quad (3)$$

where V (velocity) is the average purchase rate over a given time period. The intersection of the dissatisfaction and market traffic sets thus defines company (brand) a 's revenue loss. The cost of consumer market action is equal to the product unit contribution multiplied by

the traffic lost. As will be shown later, this cost can be substantial, particularly for firms that sell non-durables and rely heavily on repeat purchase.

If direct sales are to be maximized, it is obvious that complaint management should, if possible, seek to dissuade dissatisfied consumers from taking market action. This can only be done by responding to consumer complaints to the satisfaction of the complainants, thereby making consumer market actions superfluous. This is not to say that all complaints can be handled in a manner that provides complete satisfaction, but that it is in the best interests of both parties to strive toward that end. For successful complaint management minimizes sales losses due to consumer dissatisfaction and reduces the consumer's cost (in terms of money, time, effort and risk) as well. Certainly, most of these costs will increase if the dissatisfied consumer is forced to go beyond the company in order to obtain redress.

However, our analysis of the direct sales contribution does not provide guidance for determining the cost/benefits of having dissatisfaction expressed in the form of complaints versus not having it expressed at all. In order to determine where to channel consumer dissatisfaction so as to maximize long-term sales performance, the firm must look beyond the direct short-term sales contribution. The threats and information value of each dissatisfaction response will also have to be evaluated. The information value of the various responses determines the indirect consideration of complaint management.

THE INDIRECT-COMPLAINT MANAGEMENT-TO-SALES CONTRIBUTION

Although the very existence of consumer dissatisfaction implies market imperfections, it also presents the individual firm with an opportunity for improvement and, depending upon the circumstances, a chance to enhance competitive position. In order to effectively handle consumer dissatisfaction and to be able to identify market opportunities that may follow, the firm needs information on the following:

1. The magnitude of dissatisfaction, to determine whether the problem should be attacked on an individual consumer basis or on an aggregate (market) basis.
2. The nature of the problem, to determine how it should be

categorized and understood (e.g., does it refer to the shopping experience, the transaction, or a particular feature of the product?).

3. The distribution of the dissatisfaction, to determine the potential market targets for corrective action.
4. The importance of the problem as perceived by the consumer, to determine urgency of action.
5. The causes of the dissatisfaction, to determine what actions will be most effective in resolving the problem.

Consumer Inaction

With consumer inaction, no action is taken to resolve the problem by the consumer or the firm. In the long run, however, it is not certain that consumers will continue to suppress dissatisfaction. Inaction may turn to action if consumers become aware of available routes of redress or if they become more motivated to release their frustrations. Several studies suggest that many dissatisfied consumers fail to communicate their problems for remedial action, but may engage in negative word-of-mouth communications to warn other consumers [7, 8, 20, 25, 30, 32].

The dissatisfied consumer's decision to do nothing has no immediate effect on the market traffic. It does, however, make the firm more vulnerable to competitive inroads since the firm remains unaware of the existence of consumers' dissatisfaction. Should the nature of competitive offerings change, there is always the risk that the sales performance of the firm (brand) will be impaired.

Consumer Market Action

Brand shifting, product class transfers, purchase termination, and purchase rate reduction are behavioral responses to dissatisfaction. These market actions are non-verbal communications which may be picked up by the firm as sales reductions. But it is by no means certain that these changes in market traffic will be correctly perceived. As with all statistics, there is the problem of pooling and aggregating data. Consider two groups of consumers, one very pleased and the other very displeased, with a firm and its products. Increased purchases and the effects of positive word-of-mouth communications generated by the first group may well cancel the negative behavioral

actions of the second group. For durable products, there is an additional drawback in relying on sales statistics to discover consumer dissatisfaction, i.e., the slow transmission of information.

Depending on the rate and extent of shifts in market traffic, the consumer's decision to abandon the firm may give some indication of the magnitude and importance of the dissatisfaction. Depending on how sales statistics are compiled, there may also be information on the distribution of the dissatisfaction. It is less likely that consumer market actions alone can furnish much information on the nature, let alone the origin, of the problem. In isolation, without other sources of data, the information provided by sales statistics is weak. It indicates the magnitude and change in sales development, but not much more.

Consumer Complaints

Whereas consumer inaction suppresses communication between the consumer and the firm and consumer market action is a communication via sales statistics, consumer complaints are verbal communications. As mentioned, there are two categories of complaints: one directed toward the complainees, the other toward a third party such as a governmental or legal agency, a media ombudsman, or a consumer organization which uses a direct action approach (e.g., collective protests or demonstrations).

Almost all complaints via third parties are preceded by unsuccessful attempts to obtain remedy from a manufacturer, retailer, or service outlet. In an analysis of consumer calls to a "Hot Line," it was found that 93 percent of the complainants had first contacted the complainees [9]. Similar results have been reported in a study of consumer complaints to a newspaper ombudsman in Canada [12]. Unless the costs of complaint processing are deemed so high that they offset the adverse effects of potential negative publicity, word-of-mouth communications and legal action, firms seek to avoid third-party intervention. The following discussion will be limited to complaints directed toward complainees.

Contrary to the communication in market actions, complaint communications provide evidence, albeit often conjectural, on the nature and causes of dissatisfaction. While market action communication is inherently monological, complaint communication is

essentially dialogical. Market actions taken by dissatisfied consumers describe how the firm becomes a victim of communication rather than how communication is used as a means for constructive information exchange. Even though complaint data have been found to be biased in favor of certain problems and certain consumer groups [3, 8], they can probably provide valuable starting points for suggestions and hypotheses to guide the search for causes and solutions. If used properly, it seems likely that they can also help to amplify marketing research findings and as a means for validity and reliability assessment. For example, a food processing company's marketing research indicated that consumers did not want artificial colors, artificial flavors, flavor enhancers or preservatives in certain foods. Unsolicited consumer complaints supported these findings and suggested that many consumers wanted to return to the basics in food. This does not imply, however, that complaints can be held responsible for complete inventories of consumer concerns.

The cost of complaint processing, including dissatisfaction analysis and consumer compensation, constitutes the direct costs of consumer verbal action. The threats pertain to the possible consequences of failing to close complaints to the satisfaction of complainants (e.g., negative publicity, legal action, market action or boycotts).

Information Value: Conclusion

The comparison of dissatisfaction responses suggests that consumer market actions are more costly for the organization than are other responses. Not only are they harmful in their redirection of market traffic away from the firm, but they contribute little information for managerial guidance. Statistics on sales decline indicate *seller problems*; the language is couched in numbers and figures. Consumer complaints indicate individual *consumer problems*; the grievances are expressed in everyday language. Aggregate consumer problems define *market problems*. A *marketing problem*, finally, is a consumer problem that is relevant to the purposes and resources of the firm and is shared by a sufficiently large number of consumers to make its resolution economically feasible. Consequently, this is how a firm with dwindling sales will have to define its problem before corrective action is taken. As for consumer inaction, it is the least

costly response—especially in the short run—but it generates no information at all.

SPECIFYING OBJECTIVES

Having described the properties of the different consumer dissatisfaction responses in terms of their costs, threats, and information value, the objectives of complaint management can be developed by weighing the costs and benefits of each response.

Objective One: Complaint Maximization

Assuming that: (1) firm (brand) *a* is operating in a competitive environment; (2) the zero direct costs of consumer inaction are outweighed by the danger in ignoring consumer dissatisfaction; (3) management strategy can be developed to influence consumer dissatisfaction response; and (4) the origin of each specific dissatisfaction will eventually be detected and removed, the first objective of complaint management can be written:

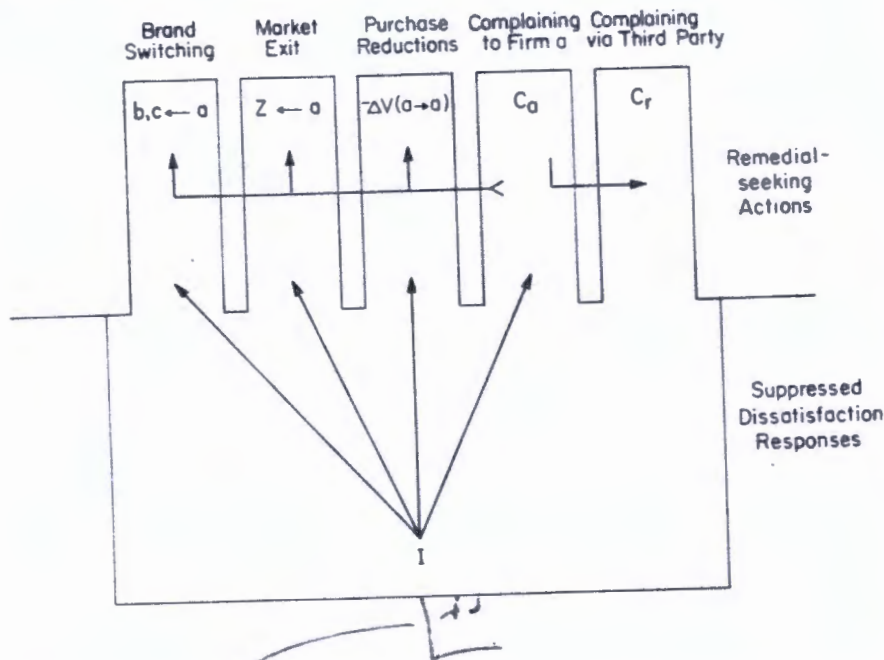
$$\text{MAX}_{(b,c-a)} \frac{C_a}{U - \Delta V(a \rightarrow a) U(Z-a) U(I)} \quad (4)$$

Since complaints to third parties and consumer protest via demonstration or collective boycotts are almost always preceded by direct complaints, the C_a term can be ignored at the moment.

The notion of complaint maximization as expressed in Equation 4 is quite contrary to popular belief and ordinary practice. More commonly companies attempt to minimize the number of complaints. Complaint maximization derives from the syllogistic-like reasoning that there is a finite and identifiable set of consumer responses to dissatisfaction; and that complaints, under most circumstances, are less harmful and more useful than other responses. Therefore, complaints should be maximized relative to other responses.

As illustrated in Figure 2, the pursuit of *complaint reduction* or *complaint minimization* may reduce complaints while simultaneously increasing other expression of consumer dissatisfaction. The simplest way to achieve a reduction in complaints would be to "close" the C-entry in Figure 2, or to make it difficult, timely, and unpleasant for consumers to complain. For example, some airlines

FIGURE 2
Consumer Responses to Dissatisfaction.



are no longer making complaint forms readily accessible for their passengers. Forms used to be placed in the seat pocket of each flight, but because of the large volume of complaints that was generated this practice was discontinued. Apparently, little attention was paid to what the dissatisfied passenger might do when the complaint outlet became less convenient. Similar examples can be found in other industries. A major oil company recently disconnected a toll-free telephone number which had been available for consumers to use for registering complaints. The reason for the removal was that the company was receiving too many calls over the line and was not willing to pay the staff costs associated with it. Interestingly enough, complaints to the company's motor club (which still offers a toll-free number) have since increased. Regardless of whether or not complaining is actually dissuaded, complaints would certainly not be welcome in a firm which interprets their frequency as a gauge of marketing or product performance. As a consequence, a company

policy aimed at reducing the number of consumer complaints runs the risk of encouraging consumers to seek other ways to obtain remedy and satisfaction.

An additional drawback of complaint minimization as an objective is that as complaints are reduced, so is information about consumer problems. Unless one can be certain that complaint reduction is equivalent to dissatisfaction reduction, the frequency of complaints is not an appropriate measure of success or failure. Complaint maximization, on the other hand, operates to increase information by channeling dissatisfaction into complaint responses.

Objective Two: Complainant Satisfaction

Extending the analysis from single to multiple dissatisfaction responses, note that complaining via a third party (C_r in Figure 2) is a secondary response (reflecting the fact that almost all dissatisfied consumers contact the complaine before calling in a third party or engaging in collective demonstrations) and that other responses can be both primary and secondary. Allowing for the possibility of multiple responses, complaint management should attempt to minimize the probability that the complainant takes other actions. Hence, complaint management should encourage dissatisfied consumers to contact the company *before* they contemplate additional actions. The objective, once a complaint has been received, is to resolve the problem in such a way that the complainant will consider other actions to be superfluous.

Revenue Potential from Objectives One and Two

The maximum revenue to be gained from implementing the proposed objectives is given by the intersection between complaint management and sales (Equation 3). To find out the magnitude of this potential revenue, we must determine the parameters of the equation.

Several studies have sought to estimate the proportion of complaints relative to market actions and inaction. While there is general agreement that the dissatisfaction response is influenced by product category, severity of problem, and socioeconomic status of consumer, the evidence as to the relative frequency of the various responses is conflicting.

In a survey regarding grocery store items, the A. C. Nielsen Company [22] found that 19 percent of the dissatisfied consumers exited the market and 25 percent shifted to another brand. For the same product category, Best and Andreasen [3] reported 11 percent combined exits and brand shiftings. For consumer services, Day and Bodur [7], in their survey of consumers in a midwestern city, found market actions to be the most common dissatisfaction response affecting 46.4 percent of their sample, while the corresponding figure in Best and Andreasen's study was 6.4 percent.

Working with Nielsen data for an estimated 2,000,000 dissatisfied customers, where market actions amounted to 38 percent, and where actual annual purchase frequency per customer was assumed to be 10 units, Kendall and Russ [17] showed that the potential revenue (opportunity loss) for a food processing company with 40,000 complaints was 7,600,000 units of sales per year.

Assuming that 20 percent of the dissatisfied consumers decided to reduce their annual purchase rate from 10 to 8 units, and that 15 percent of those who took market actions abandoned the market, Equation 3 gives the potential revenue from complaint maximization and complainant satisfaction:

$$-\Delta V(a \rightarrow a) + (Z - a) + (b, c - a) = 2(400,000) + 10(114,000) + 10(646,000) = 8,400,000 \text{ units of sales}$$

Applying Best and Andreasen's [3] findings of 11 percent market actions and 16.5 percent complaints to the same company with the same assumptions regarding purchase rate, the number of dissatisfied consumers is estimated as 242,424, and the potential revenue drops to 363,636 units per year. The vast discrepancies between the estimates derived from these studies suggest that individual companies will have to rely on their own estimates of dissatisfaction and dissatisfaction response.

Objective Three: Identification of Problems and Opportunities

While complaint maximization and complainant satisfaction have a direct bearing on market traffic, they are also defensive in character. Both take consumer dissatisfaction as given. But consumer dissatisfaction is not a static phenomenon, nor is its occurrence inde-

pendent of organizational behavior. Determining the magnitude, nature, distribution, importance and causes of consumer dissatisfaction, and assisting in detecting marketing opportunities among unresolved consumer problems are a third task of complaint management.

While one can find different conceptualizations of consumer dissatisfaction in the literature, there is general agreement that dissatisfaction is a function of violated expectancy and that the probability of dissatisfaction increases with the perceived degree of discrepancy between actual outcomes and expected consequences [1, 2, 6, 15, 18, 23]. In this light, it might seem natural to express a third objective of complaint management as the minimization of the expectancy-product (or service) performance gap. But this would be too simplistic and narrow a formulation. While it acknowledges that dissatisfaction is a relative construct, it restricts relativity to expectations and ignores the fact that consumer evaluation is also affected by such factors as post-purchase brand comparisons, post-purchase peer group influences, product unavailability, and need for variety and novelty.

Although not conclusive, empirical research seems to support the assimilation-contrast model of consumer post-purchase evaluation [1, 24]. When the expectancy-product performance gap is minor, evaluation of the product is assimilated toward expectations; when discrepancy is substantial, evaluation takes a downturn and is contrasted to expectations. If indeed consumer product evaluation has an inverted U-shape, as implied by the assimilation-contrast model, optimal satisfaction (product evaluation) is achieved even though consumer expectancy is somewhat inflated relative to "actual" product performance. For this reason, it seems that the benefits for complaint management in following the expectation-evaluation conceptualization in eliminating dissatisfaction by matching consumer expectation and product performance would be equivocal at best.

For growth-oriented firms, it is not enough to retain and to restrict intra-market traffic. Strategies for growth are needed to address the problems engendered by consumer dissatisfaction. Different levels of dissatisfaction magnitude pose different problems and require different organizational responses. Consider the following four levels in Table 1.

TABLE 1

Four Magnitudes of Consumer Dissatisfaction and Organizational Response.

PROBLEM MAGNITUDE	ORGANIZATIONAL RESPONSE
(1) Unique dissatisfaction	Case-by-case complaint handling
(2) Infrequent dissatisfaction	Standardized complaint handling
(3) Relatively frequent dissatisfaction	Segment opportunity
(4) Market dissatisfaction	Product improvement/New product development

First, there may be unique consumer problems (1). These occur only once and need ad hoc tailor-made responses. However, for cases in which small numbers of consumers are facing identical problems (2), it is probably better to standardize the complaint response. Although the problem is recurring, it does not affect enough consumers to warrant action at the aggregate level (i.e., a change in the product or its marketing). As the magnitude of dissatisfaction is increased, there could be an opportunity for market segmentation (3). As long as the dissatisfaction is limited to a minority of the customers it would be risky to alter or discontinue aspects of marketing unless one was certain of a positive reaction from the majority of the customers. A possible solution to this dilemma is offered by segmentation in the form of brand extension and different marketing programs to different customers. Finally, if the magnitude of dissatisfaction is close to 100 percent of the consumers (4), the inability or failure of consumers to take market action is the only reason that the firm is still in business. Either the firm is operating under conditions of monopoly or competing firms face identical unresolved problems. The organization that is able to break the monopoly or is first to offer a satisfactory solution will gain substantial market traffic and competitive advantage.

For some companies, particularly those which sell food products and other non-durable, low-cost items, the per-case cost of complaint processing may exceed product contribution to overhead. This does not mean that the idea of complaint maximization should be abandoned. But it does put more pressure on complaint management to swiftly identify the type of dissatisfaction directed at the firm so that corrective action can quickly be put into effect. Rapid discovery of consumer and market problems so that responses can be standardized, the opportunities exploited, and the threats curbed, also leads to reduced consumer dissatisfaction and a lowering of the

number of complaints. However, when the problems identified cannot be satisfactorily resolved or when the firm needs time to find and implement a solution, it may be necessary, from a profitability perspective, to compromise the objective of complaint maximization.

ADDITIONAL CONSIDERATIONS

There are some conditions under which a consumer affairs department may not be able to pursue complaint maximization. For example, an organization operating in a stable environment offering consumer necessities while enjoying absolute monopoly may be able to discard consumer criticism without jeopardizing sales. Whether it also enjoys immunity to public opinion is, of course, another matter.

The multi-brand company may be more interested in maximizing market traffic among its various brands than in maximizing complaints. This strategy may be effective when dissatisfaction is caused by monotony in brand usage, which can be eliminated by offering variety. It assumes that the dissatisfaction is brand specific with no carry-over effects on the company as a whole.

The viability of complaint maximization also depends on the information available in addition to complaints and market actions. Strong arguments for developing better quality data on consumer dissatisfaction through survey research have been presented by a number of researchers [1, 3, 6, 19, 29, 32]. They base their recommendations on the observation that only a fraction of consumer concerns is voiced in the form of complaints, and that complaint data, as a result, are afflicted with substantial shortcomings and serious bias. While this argument does not oppose the objectives of complaint maximization and prevention of multiple dissatisfaction responses, it questions the capability of complaint management to identify the true scope of consumer problems. It is paradoxical, then, that a byproduct of successful complaint maximization would be the elimination of the biases and shortcomings of complaint data. Although 100 percent implementation may not be realistic, it is possible that the larger the proportion of dissatisfied consumers complaint management is able to attract, the less biased and the more comprehensive the information it will generate.

Not until we have seen the effects of complaint maximization in operation can the issue of survey research versus complaint data be resolved. From a communications perspective, complaining and sur-

vey research have few characteristics in common. In complaining, the consumer takes the initiative, develops a message, and selects a channel and intended receiver. The consumer (*sender*) controls the major aspects of the communication. In surveys, the organization (*receiver*) is in control. As has been shown elsewhere [10], complaints and surveys have different biases: where one is weak, the other is strong. Consequently, there is a good case for combining the two.

SUMMARY

Ample empirical evidence suggests that most corporate consumer affairs departments are excluded from marketing decision-making. As a result, these departments cannot provide much consumer input for marketing decisions. A likely reason for their organizational isolation is that the consumer affairs contribution to the profitability of the company is not well understood. One way to strengthen the consumer voice, via consumer affairs departments, would be to demonstrate the impact of consumer complaint management on company sales.

If it can be shown that complaint management has a significant effect on sales, it would be easier for a consumer affairs department to justify its corporate existence in terms of profitability, and to enhance its status and influence in decisions that affect consumer satisfaction and welfare. Accordingly, it was the purpose of this article to specify analytically the relationship between complaint management and sales and, subsequently, to derive objectives for complaint management that would maximize the relationship. The assumption was that the consumer voice has a better chance of being heard throughout a company if it is equipped with a strong linkage to company sales performance. That linkage was defined as the opportunity cost of losing a customer (i.e., if the dissatisfied consumer, instead of complaining, takes some form of market action). Brand switching, market exit, patronage change, and purchase rate reduction are all market actions that have a direct and adverse effect on sales. Complaining, on the other hand, has by itself no such effect. Instead, it affects profitability in two ways. First, since it has both fixed and variable costs, total costs are increased. Thus, there is a negative effect on profit. Second, to the extent that complaint management is successful in providing redress for individual consumers, customer

loss is prevented. In this sense, complaint management has a positive effect on profit in terms of repeat buying. If the cost of complaint processing is less than the cost of losing a customer, it would be in the best interests of the firm to funnel consumer dissatisfaction into complaints. Failure to provide this outlet forces dissatisfied consumers to take their case elsewhere. To avoid this possibility, the following objectives for complaint management were derived:

1. Maximize consumer complaints relative to other consumer dissatisfaction responses.
2. Provide complainants with satisfactory remedy on an individual basis.
3. Identify market opportunities and problems on an aggregated basis.

Successful pursuit of the first objective implies that the dissatisfied consumer contacts the firm before taking other actions. The second objective is geared towards the resolution of individual consumer problems in such a way that other consumer actions become unnecessary. Following the third objective, collective consumer problems are addressed in order to avoid future dissatisfaction.

These objectives are difficult to meet. Little is known about the factors that determine consumer response to dissatisfaction and perhaps even less about how to identify collective problems from complaint data. Empirical research on these issues is needed. However, by progressing towards the proposed objectives (as opposed to complaint minimization), both business firms and consumers stand to gain. The consumer affairs department will provide the consumers with a direct two-way communication channel to firms. As a result of its demonstrated impact on sales and profits, consumer affairs will be in a better position to influence marketing decisions in the company and consumer grievances will be taken more seriously. Finally, it should be emphasized that complaint management as suggested here does not preclude the use of alternative avenues for consumer redress. The only way for a firm to encourage dissatisfied consumers to voice their complaints directly to the company, and possibly change their preference for other dissatisfaction responses, is to enhance the attractiveness of the firm's own system for providing redress by (1) lowering the consumer's cost for utilizing it, and (2) increasing the quality of the remedies offered.

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The maturing of consumerism

Paul N. Bloom and
Stephen A. Greyser

This movement
has entered the advanced phase
of its 'life cycle' and
is experiencing
market fragmentation

What lies ahead for the American consumer movement? Or, to put it another way, how will the consumer movement follow up on its accomplishments of the 1970s? If examined in a marketing context—with the consumer movement viewed as a product and the public as its potential customers—consumerism could be seen as entering an important new stage of its product life cycle. Shifting political and social attitudes along with fragmentation of consumerist organizations have heightened competition within the movement for supporters.

The authors break down the existing consumer movement into eight distinct categories according to the sorts of changes sought for society. They then examine the likely future of the competing groups and discuss the implications their projections hold for business.

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During the early and middle 1970s, consumerism was a hot topic. Consumer protection legislation and regulations were being pursued, and indeed some activists joined the government as regulators. Ralph Nader and his adherents gained high public visibility, and others in political and social arenas who advocated proconsumer positions received strong public support. Observers concluded that consumerism would not only endure but would continue to play an important role in marketing.¹

But now consumerism seems to have been shunted aside as a major issue of controversy. The movement experienced several setbacks at the end of the decade—for instance, legislation to establish a federal consumer protection agency was de-

feated. Now, particularly in the wake of the 1980 elections and the nation's politically conservative bent, some see consumerism rapidly fading as an issue.

We disagree with this assessment of the movement's future. We believe that consumerism will continue to have a significant impact, albeit a less dramatic one, on business—especially marketing—in the years ahead.

What has happened to consumerism over the last decade can be compared to what frequently happens to products: it has moved through stages of its life cycle. Consumerism has now entered the mature stage of its product life cycle and, like breakfast cereals or detergents, has experienced a considerable degree of market fragmentation. (Before continuing our discussion, let us note here that our use of life cycle terminology is consistent with current thinking, in both the sociology and the

Editor's note:

All references are listed at the end of the article on page 139.

political science literature, about the evolution of social movements.²⁾

Many organizations, institutions, and individuals now offer what we view as a wide variety of "brands" of consumerism to different segments of American society. These brands are competing with one another for funds, workers, media attention, and public opinion—just as businesses compete for capital, managerial talent, retailer support, and customer loyalty. How this competition evolves and how the entire consumerism "industry" adapts to outside changes will determine consumerism's future.

Although it is in the mature stage of its life cycle, consumerism is not, we believe, in a declining or faltering stage. We reached this conclusion after considering the results of several recent public opinion surveys which point to continuing strong, though latent, public demand for actions that help consumers obtain a better deal. We also believe that certain aspects of consumerism—redress assistance, education, cooperative buying, and deregulation—are still well accepted, although some older offerings (such as consumer protection legislation) have fallen on hard times.

In this article we analyze and predict likely directions for consumerism in the 1980s. We build on our premise that the life cycle represents the movement's evolution reasonably well. But before we pry further into consumerism's current and future status, let us review more of its history.

Filling a marketing void

A new wave of consumerism emerged during the 1960s. While a wave in the 1930s had been primarily economic in orientation, the 1960s resurgence was largely social. It stemmed from a perceived need to redress the imbalance in the marketplace between seller and buyer. Manifested in John Kennedy's 1962 statement of consumer rights, the new consumerism was symbolized by the efforts of the nation's largest corporation (General Motors) to discredit an individual (Ralph Nader) who sharply criticized that company.

Combining to create strong "consumer demand" for ideas and actions that would help people get satisfaction in the marketplace were the increased complexity of products, the broadening of self-service channels and depersonalized shopping, the growth of consumer services (whose quality is difficult for customers to judge), and increases in consumers' discretionary buying power.

Initially the few consumer organizations active in the 1960s sought to cultivate this latent demand by "selling" consumer protection via legislation. Ralph Nader, Betty Furness, and several others were highly successful at getting legislators and the public to support laws designed to bring safer products and better information to the public. The success of the Truth in Packaging, Truth in Lending, and Consumer Product Safety Acts naturally pulled other, more specialized groups—including environmental, health and nutrition, and senior citizens organizations—into the business of selling consumer protection legislation.

But these organizations and their leaders soon recognized the limitations of legislation as the sole means of achieving change in the marketplace. They needed other means of persuasion to attract the funds and supporters required to keep their organizations viable. Consequently, the organizations expanded their "product lines" and began to promote such offerings as institutional reform, consumer representation, redress assistance, consumer education, and vigorous enforcement of the new buyer protection laws. While these processes had no doubt interested such organizations all along, they had received negligible promotion compared with legislation.

Thus, Nader and his associates began to call for reform of regulatory agencies such as the Federal Trade Commission and for improved consumer representation in government and industry. They used publicity-generating devices such as research reports from "Nader's Raiders," proxy fights (e.g., Campaign GM), and major lawsuits to generate public interest in their new offerings.

In a more quiet way, leaders like Esther Peterson called for businesses to exhibit enlightened self-interest and establish active, influential internal units to monitor consumer affairs and to undertake consumer education efforts.³ Groups such as Consumers Union and "Banzhaf's Bandits" (a team of George Washington University law students led by Professor John Banzhaf) petitioned federal agencies and took other legal actions designed to strengthen and expand consumer protection legislation and regulation.

In their desire to get a better deal from the marketplace, the American public apparently accepted the initiatives and philosophies of these reformers and supported the development of a burgeoning bureaucratic infrastructure to aid and abet the newly minted laws. The huge number of federal, state, local, and corporate consumer affairs offices created in the 1970s, as well as the stepped-up activity of such agencies as the FTC and the FCC, were testimony to the success of the consumerism industry.

Consumerism's own watchdogs

The new consumerists eventually discovered, however, that Americans would not accept everything that was pushed at them. The industry, in fact, ran into a form of consumerism of its own. In the late 1970s, many responsible individuals began challenging the need for consumer protection initiatives such as seat-belt interlock systems and bans on advertising during children's TV shows.

Even the credibility of Nader himself was challenged. He was sharply criticized in 1977 for publicly castigating a former colleague, Joan Claybrook, after she became head of the National Highway Traffic Safety Administration and approved a delay on requirements for auto air bags. Moreover, his group's efforts to organize Fight to Advance the Nation's Sports (FANS), a consumer group for sports fans, raised questions about the seriousness (or overseriousness) of consumer activists.⁴

Perhaps the strongest signal of the public's reservations came in 1978 when Congress voted down a long-standing proposal to establish a federal agency that supporters said would represent the interests of consumers within the federal bureaucracy.

The events of 1977 and 1978 clearly indicated a fundamental problem facing consumer organizations: only when the populace didn't feel greatly inconvenienced but did feel endangered would the "consumer interest" label sell. In the case of seat-belt interlocks, many people apparently found the personal inconvenience costs too high; in the case of a consumer protection agency, many people apparently saw public costs of these initiatives as outweighing public benefits.

At the same time, many consumer activist groups came to be viewed more accurately as special interest organizations than as public interest groups. Even though they were promoting consumers' special interests, the obvious antibusiness nature of some activist initiatives and positions tarnished their image somewhat.

Of course, increased counterefforts by businesses and business associations accelerated this closer consideration of the price of consumerism. Using advocacy advertising, intensive congressional lobbying, highly publicized research reports, and the like, individual businesses—as well as groups like the Business Roundtable, Consumer Issues Working Group, and American Enterprise Institute—entered the consumerism industry and attempted to sell such concepts as deregulation and industrial growth.

To a public becoming disenchanted with the offerings of consumerism, these business-oriented groups seemed attractive. The 1980 elections further indicated a shift in popular attitudes toward these groups.

Over the past decade, then, the consumerism industry has evolved from a few organizations selling primarily legislation into an enormous web of organizations and institutions, each trying to serve the interests of the purchasing public with its own distinctive set of offerings. (A recent compilation titled *Contacts in Consumerism* describes 101 national organizations and 630 state and local groups with activities designed to serve consumer interests.⁵)

As the life cycle of the industry has peaked and leveled off, the friendly and not-so-friendly competition among these entities for donors, supporters, clients, media attention, and public opinion has heated up.

The current scorecard

The results of several national opinion polls suggest that the public still appreciates the benefits of consumerism. Public dissatisfaction with the marketplace has remained strong in recent years, and positive attitudes toward various reform measures have not diminished.

Five studies conducted by Hiram C. Barksdale and William Perreault between 1971 and 1979 provide evidence of the public's continued dissatisfaction with the marketplace and its desire for reform. The authors summarize their findings this way: "In general, there were no drastic shifts in consumer attitudes during the 1970s. While there were some important gradual changes, the major areas of consumer discontent were substantially the same at the end as at the beginning of the decade. Furthermore, the level of consumer apprehension at the beginning of the 1980s appears to be about the same as in 1971."⁶

In 1979 a Marketing Science Institute survey showed that Americans saw the balance in the marketplace between "buyer beware" and "seller beware" philosophies as more tilted toward the former than it had been two years before—when the Sentry study of public attitudes toward consumerism had captured proconsumerist views on a broad range of issues at their apex.⁷

A 1979 study sponsored by Union Carbide and a 1980 study sponsored by the Food Marketing Institute also suggest that strong latent

Exhibit I

Positioning of organizations
consumerism industry

Type of organization	Conceptions of extremity of solutions required*
Nationals	Moderate to liberal
Feds	Moderate
Deregulators Locals	Conservative Moderate liberal
Coops	Conservative to radical
Corporates	Moderate
Anti-industrialists	Radical
Reindustrialists	

*This dimension ranges from "liberal" to "radical," with the former favoring major structural change in U.S. society and more government's role.

*This dimension ranges from "achieving institution" to "consumer representative," with the latter favoring consumer education, regulation, and services.

Consumerism's own watchdogs

The new consumerists eventually discovered, however, that Americans would not accept everything that was pushed at them. The industry, in fact, ran into a form of consumerism of its own. In the late 1970s, many responsible individuals began challenging the need for consumer protection initiatives such as seat-belt interlock systems and bans on advertising during children's TV shows.

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In 1979 a survey showed that Americans were wary of the marketplace between the "beware" philosophy of the former than it had been. The Sentry study of public opinion had captured a wide range of issues at the time.

A 1979 Carbide and a 1980 Marketing Institute study

Washington political arena. They can generally be characterized as moderate to liberal in terms of the amount of social change they seek to achieve. They typically focus on legislation, institutional reform, consumer representation, enforcement of consumer protection laws, and consumer education.

Many of the nationals' products—especially legislation—haven't been selling well recently. Some groups have had fund-raising problems as a result. For example, Ralph Nader's Public Citizen reportedly raised \$1.3 million in 1977 but only a little less than \$1 million in 1978.¹¹ As *Exhibit II* suggests, the legislative victories of these groups have diminished in recent years. They have lost battles over the consumer protection agency, automobile air bags, the powers of the FTC, and other issues.

These losses, coupled with cutbacks in federal funds for public participation in rule making (and for rule making in general), indicate that institutional reform, consumer representation, and consumer protection law enforcement have not been particularly successful products for the nationals. Recent court decisions restricting the filing of consumer class action suits have created additional problems for them.¹²

The "feds." This category includes all the federal agencies with programs designed to enhance the purchasing public's welfare—the FTC, FDA, Consumer Product Safety Commission, Office of Consumer Affairs, Office of Consumers' Education, and others. As government institutions which purport to serve the masses, they generally cannot promote major structural reforms and must remain reasonably moderate—although critics of FTC initiatives in recent years might view this agency as having been ultraliberal or even radical in its outlook.

These organizations have primarily been selling consumer protection law enforcement, consumer education, and redress assistance. Recently they have encountered difficulty selling enforcement to the public and to Congress, but they have been reasonably successful at obtaining support for their educational and complaint-handling programs.

The "deregulators." Much of the resistance the federal agencies have encountered when encouraging enforcement can be attributed to the deregulators. Although certain nationals and the FTC were the original enthusiasts for deregulation of the airlines, railroads, trucking industry, and legal and other professions, groups such as the American Enterprise Institute, U.S. Chamber of Commerce, Business Roundtable, and Consumer Alert—along with companies like Mobil and R.J.

Reynolds—have taken the lead in advocating deregulation for many more sectors.

The deregulators are among the most conservative competitors in the consumerism industry. They seek major structural reforms that would cause a sharp turn in the federal government's role—back to the less intrusive position it held before the recent resurgence of consumerism. And currently their efforts seem to be paying off.

The "locals." This category includes public and private organizations that focus on local issues and serve relatively small constituencies or memberships. Groups range from the largely campus-based, Nader-inspired Public Interest Research Groups (PIRG) to active local consumer protection offices in places like Dade County, Florida and Montgomery County, Maryland. Also in this category are the numerous "action line" operations of local newspapers and broadcasters.

In the framework of "solutions required" (see *Exhibit I*) most of these groups tend to be moderate or perhaps liberal in outlook, only occasionally seeking major structural changes. They tend to promote legislation, consumer protection law enforcement, consumer education, and redress assistance.

Many of the locals have been more successful lately than their counterparts among the nationals or feds, in part because they concentrate on and serve a much more homogeneous market than other organizations. Stronger protection legislation than what exists on the federal level is on the books in Massachusetts, New York, New Jersey, and other states because of successful selling by the locals. Active consumer education and complaint-handling programs in these jurisdictions are further evidence of their power. Whether these activities can continue in the wake of local tax-reduction efforts such as California's Proposition 13 and Proposition 2½ in Massachusetts remains to be seen.

The "coops." These organizations (whether legally organized cooperatives or not) provide mechanisms through which people can pool their resources to obtain better information and/or better buys than they could otherwise. Some coops are national (Consumers Union—the publishers of *Consumer Reports*—is one and the national for-profit buying service Compucard, another). However, most coop retail organizations are local—for example, Chicago's Hyde Park Cooperative, Cambridge's Harvard Cooperative Society, and the Greenbelt Cooperative in Maryland.

Inflation has spurred the growth of local coops (especially food coops where members volunteer working time), since many people have

Exhibit II
Selected House of Representatives votes
on consumer issues

Congress	Purpose of bill	Proregulation	Antiregulation
92nd	To establish a consumer protection agency*	344	199
93rd	To establish a consumer protection agency*	293	84
94th	To establish a consumer protection agency*	208	199
95th	To establish a consumer protection agency*	189	227
95th	To strike major class action provision from FTC bill	139	279
96th	To reauthorize the FTC with a congressional veto	63	321

*A bill to establish a consumer protection agency never passed both houses of Congress and receive presidential approval.

Source: U.S. Chamber of Commerce, as published in the *Washington Post*, January 13, 1980.

become willing to trade their time for lower prices. The coop movement has also spread in the form of small local operations like neighborhood babysitting networks or day-care centers.

These organizations range from the conservative to the liberal. Some promote cooperative activity as a way to inject increased competition into a market, while others promote it as a vehicle for circumventing or challenging the power of big business.

In general, the coops seem to be doing reasonably well in selling their services. One recent report estimates that one in three Americans belongs to a cooperative of some type. And the 1980 opening of the National Consumer Cooperative Bank—a quasi-government institution that can receive up to \$300 million in federal funds over the next five years to lend out to various sorts of coops—gives the cooperatives a base from which to expand their market share.

The "corporates." Many corporate consumer affairs offices sprouted during the past decade. They aim to resolve consumer complaints, conduct consumer education efforts, and serve as advisers to top management in making decisions about product safety features, advertising claims, and so forth.

Although consumer affairs offices in companies such as Giant Food and J.C. Penney have

apparently had considerable influence on the policies and actions of their companies, several recent studies suggest that most of these offices owe allegiance to their companies first and their customers second.¹³ (Indeed, where should the hearts of corporate consumer affairs personnel lie? Some conflicts of interest seem inevitable.)

Whatever their formal mission, many consumer affairs specialists believe that it's their responsibility to keep the company out of trouble via complaint-handling and educational activities. In a sense, these personnel have had difficulty selling consumer representation to corporate executives. They have, however, been reasonably successful at selling redress assistance and consumer education to the public.

For instance, a recent Conference Board study found that the use of corporate complaint-handling services has increased markedly in the last few years.¹⁴ Although this surge could be a sign that customers have become less satisfied with products and services, we think it more likely that improved complaint-handling processes have made it easier for people to voice complaints and have elevated public expectations about the likelihood of getting results.

(Alan R. Andreason and Arthur Best, however, reported in 1977 that less than half of customers they surveyed who had complaints about products took their objections to the seller or maker. And of those who did, about one in three considered the outcome of such efforts unsatisfactory.¹⁵)

The "anti-industrialists." The groups and individuals in this category are the most radical members of the consumerism industry. Organizations such as Congress Watch (part of the Nader network), the Institute for Policy Studies, and the Interfaith Center on Corporate Responsibility comprise this sector, along with writers Mark Green, Richard Barnet, Timothy Smith, and others. They are selling citizen control of corporations (through federal chartering), controlled use of technology (e.g., "no nukes"), slower economic growth, stronger environmental protection, and several other causes that are somewhat difficult to label (e.g., demarketing of infant formula in less developed nations).

Recent setbacks—for instance, the lukewarm reception of "Big Business Day" in April 1980 and the defeat of an antinuclear referendum in Maine in the same year—suggest that the products of the anti-industrialists are not selling. However, one must keep in mind that more than 40% of the voters supported the Maine antinuclear proposition, while millions showed their support for stopping nuclear power following the Three Mile Island accident.

Furthermore, public opinion surveys such as the 1979 Union Carbide study cited earlier continue to show significant public concern about the extent of corporate power in the United States. Clearly, the ideas of the anti-industrialists are well received by many.

The "reindustrialists." Scholars like sociologist Amitai Etzioni and companies like Union Carbide have begun selling reindustrialization as somewhat of a competitor to anti-industrialization. These more conservative voices are calling for increased industrial growth, wider investment in technologically advanced production facilities, more emphasis on hard work and productivity, and less reliance on regulation. (There is a lot of overlap between the reindustrialists and the de-regulators.)

The results of the 1980 elections and of a 1980 Union Carbide survey on growth both suggest that the public is ready to accept tax incentives and other growth policies to make reindustrialization happen.¹⁶

Considering the future

Serious observers of the consumer movement differ widely in their predictions of where consumerism is headed. Futurist Graham Molitor, former Washington representative for General Mills and a longtime careful analyst of consumer protection activities throughout the world, sees pressures welling up for the U.S. government to adopt many of the liberal consumer protection measures enacted in the Scandinavian countries and in liberal states like Massachusetts.¹⁷ On the other hand, consumer economists Robert O. Herrmann and Rex H. Warland, who have written extensively on the subject, believe that the movement has entered a long, slow decline in its life cycle.¹⁸

Our own view lies between these two positions. We see consumerism remaining in a mature, active stage—experiencing neither substantial growth nor serious decline—throughout the 1980s if not longer. In sharp contrast to the situation ten years ago, we sense that *consumerism is no longer the exclusive domain of the traditional movement.*

As we noted, the number of suppliers of consumerism's products has increased, and brands and offerings have fragmented. Further, many once-innovative ideas like improved redress have become institutionalized within businesses

and through local governments and consumer organizations.

We should add that these changes are not necessarily unhealthy for the spirit of consumerism. We see this fragmentation as something that will help the movement endure and overcome the failures of some of its individual organizations. In the same way that companies seek to extend the life cycles of their products and brands, the consumer movement can find creative strategies for remarketing its products.

Our prediction is influenced greatly by current thinking on social movements. To maintain their vitality, social movements require organizations capable of mobilizing resources rather than just mass discontent. In this light we will now examine the prospective staying power of the consumer organizations discussed earlier.

Managing 'free riders'

All social-movement organizations must deal with what economist Mancur Olson has labeled the "free rider" problem.¹⁹ They must find a way to get the support and funding of people who would reap—without paying—many of the benefits such organizations might spur. For example, an organization pushing product safety legislation must convince people to support it even though the public will benefit from passage of such legislation without contributing anything to the organization.

In marketing terms, the free rider problem becomes one of formulating attractive products or offerings for which people will pay a price. Generally, products that provide direct, personal benefits (such as services or assistance) sell better than those that merely provide indirect, collective benefits (such as promises to fight for legislation or stricter law enforcement).

Social movement organizations usually find this to be true, though for a long time many of the national consumer organizations got around the free rider problem without providing direct, personal benefits. Using publicity-generating devices such as lawsuits, boycotts, congressional testimony, and controversial research studies, many organizations were able to spark enough interest in their activities to get large numbers of people to donate small sums or to pay nominal dues. They also used direct-mail solicitation with considerable success. These organizations were able to get people to buy promises because the price was very low and because the promises were usually kept.

At that earlier stage of consumerism's life cycle, broad generic benefits were still rather

distinctive—and there were few organizations promoting such services and activities. As fragmentation occurred, the nationals became less able to keep their promises about such issues as new legislation or court cases and consequently were less successful in raising funds. Further, with more and more organizations using direct mail, consumers are less likely to donate to any single cause.

Assessing the brands

To use the marketing analogy, more narrowly segmented brands focusing on specific consumer benefits have supplanted some of the more broadly oriented early entrants.

Unless the nationals begin selling more than promises, they may find the 1980s to be a bleak period. Although a few of these groups could experience a short resurgence as the conservative Reagan administration provides a target against which to rally support, we think that many of them are due for hard times if not extinction.

On the other hand, locals and coops appear to have a reasonably bright future in the 1980s. These groups can overcome the free rider problem by selling redress assistance, education, information, and services from which people receive direct, personal benefits. People are willing to exchange tax dollars, membership dues, subscription fees, and the like for these benefits.

We believe that the 1980s will see the growth of many more organizations like the Washington Center for the Study of Services, which publishes the quarterly *Washington Consumers' Checkbook* report on the attributes of local auto repair dealers, plumbers, roofers, doctors, and other providers of consumer services.

The fate of the remaining types of consumerist organizations is more difficult to predict. Forecasts are shaky about the deregulators and reindustrialists, though business support is likely to keep them out of severe financial difficulties. Whether these groups can continue to attract strong public support for their ideas will depend on a host of factors, including the ability of deregulation to fulfill its promise of reducing prices and increasing productivity. If not, there may be calls for "reregulation."

Difficulties also arise in predicting the status of the feds, corporates, and anti-industrialists. The redress assistance and consumer education activities of the feds and corporates should by themselves help support most of these organizations, but how successful these groups will be in rallying support for their other activities (like

law enforcement and top-management advising) is harder to project.

It is also hard to predict what the anti-industrialists will achieve, though we think that they too will be able to stay in business. Most of these groups are built around single issues about which some segment of the public will probably remain (or become) strongly agitated. These organizations should be able to obtain financial support from church groups and from small donors aroused by crises like "Three Mile Island" or "Love Canal."

Evolution & survival

Ultimately, the future of each consumerist organization depends on how well it adapts and responds to certain trends in America's society and economy.

Key among these are inflationary pressure and the depletion of energy resources. Both of these worries tend to increase consumer dissatisfaction with the marketplace and therefore to aid the cause of consumerism. If inflation and energy shortages cannot be stemmed, then coops will prosper (to help people obtain scarce goods at lower prices) and the conservation-oriented anti-industrialists will gain appeal.

Under inflationary, energy-scarce circumstances, the anti-industrialists might call for structural reforms in marketing, promoting them as devices to lower consumer costs and conserve resources. Such reforms would be designed to force less product differentiation, less advertising and promotion, and less use of other marketing approaches that they believe encourage inflation and wasteful consumption.

At the same time, if inflation becomes a way of life, "pocketbook consumerism" will become central. All consumer-related organizations will have to concentrate on demonstrating that their proposals translate into money or time savings for the purchasing public.

If, however, the supply-side policies of the Reagan administration—with their emphasis on deregulation and tax incentives for reindustrialization—prove effective in squelching energy shortfalls and inflation, Americans might see a different trend. Latent demand for consumerism would likely remain, because a victory over inflation would probably raise people's expectations about what they should receive from the marketplace.

We would expect some consumers, freed of the need to spend their time and energy developing inflation-survival skills, to pursue the causes of improved product safety and durability,

environmental protection, and so forth. Other consumers would likely continue to use the services of the locals, corporates, and coops to get the best deals possible or to pursue redress from deceptive and unfair sellers. And, of course, the ideas of the deregulators and reindustrialists would be in vogue; one could expect these groups to push proposals such as the elimination of corporate income taxes or the removal of many antitrust laws.

In sum, we foresee a quieter but still active consumer movement during the 1980s. We think the public will shift from its past role as largely cheering spectators to one of active participants. We envision *participative consumerism* as a major characteristic of the marketplace.

The daily behavior of many people will be influenced by consumerist issues; we expect consumerism to entail a great deal of activity by people on their own—like consumer education, consumer information, redress assistance, cooperative buying, and home-grown products. On the other hand, we anticipate much less activity propelled by national organizations and their leaders.

The only reasons, in our opinion, for the protest aspect of consumerism to reach the intensity it achieved in the past would be either via dramatic near-disasters (such as Three Mile Island) or if deregulation and reindustrialization fail miserably at checking inflation and energy problems. If these ugly events occur, then—we believe—the slow-growth and conservation-oriented views of those we have labeled anti-industrialists will be heard frequently.

What can business do?

Business has three strategies available to it for coping with the mature, fragmented consumerism of the 1980s. It can:

- 1 Try to accelerate the decline stage of the movement by attempting to *reduce demand* for consumerism.
- 2 *Compete* in the consumerism industry.
- 3 *Cooperate* with nonbusiness competitors in the consumerism industry.

Of course, each of these strategies has strengths and weaknesses. Attempting to reduce demand would lead a business to concentrate on improving product quality, expanding services, lower-

ing prices, toning down advertising claims, and taking other actions to reduce the causes of consumer dissatisfaction. Such a strategy is consistent with the marketing concept, and at least some of the public would respond positively to this strategy. But if pocketbook concerns dominate, improved product quality and expanded services may find only limited consumer support.

Furthermore, a company that relies solely on the good efforts and intentions of its marketing program to cope with the consumer movement is flirting with trouble. One can never tell when unanticipated events like a computer breakdown in customer services or the discovery of unethical activities on the part of a competitor (and consequent tainting of the industry) can make a business the target of customer complaints, consumer agency investigations, or other actions. Nor is it possible to be certain how high customer expectations may have been elevated by a company's previous fine performance.

If a business chooses to compete in the consumerism industry, it can follow one of two routes. (1) An active consumer affairs department can offer redress assistance and consumer education. This approach will work as long as buyers believe in the department and do not see it merely as a public relations gimmick. At this stage of consumerism's development, "cosmetic consumerism" is unlikely to be successful. (2) A business can fund and/or coordinate activities designed to sell deregulation, reindustrialization, and other probusiness causes. Companies can donate to the American Enterprise Institute or run advertisements to publicize survey data showing that Americans favor economic growth (as Union Carbide has done). While this type of effort can be effective, it can also annoy and anger some members of the public.

If following a strategy of cooperating with nonbusiness competitors, a company might assist government agencies, nonprofit organizations, and coops in selling the latter groups' consumerist offerings. A business can give financial assistance, provide access to facilities, or lend managerial and creative talent to consumer education and other programs. This approach can improve relations with consumerists and generate favorable low-cost publicity but may also generate suspicion that the company is trying to co-opt the organization it is supporting. And obviously there are some organizations whose views may be so opposed to those of a particular company that it could not cooperate with them.

We believe that, for most businesses, the optimal approach involves elements of all three of the strategies we cite. A good approach entails a combination of purchaser-oriented marketing, re-

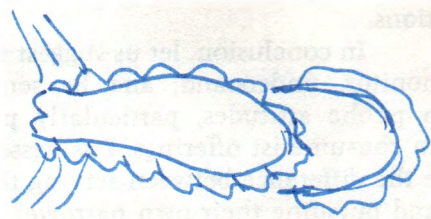
liable and sincere consumer affairs departments, and selected cooperative ventures with external organizations.

In conclusion, let us suggest that businesses monitor, understand, and be sensitive to trends in public attitudes, particularly public responses to consumerist offerings. Businesses should recognize the difference between serving the public interest and pursuing their own narrower interests. Corporations should also work to present their own viewpoints on relevant consumer issues (as General Foods did in a recent campaign on national nutritional policy).

A gap still exists between promises and performance—a gap that fuels proconsumerist sentiment. But, for companies working to narrow that gap, consumerism remains an opportunity rather than a threat.

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UNITED STATES
OFFICE OF CONSUMER AFFAIRS
Washington, D.C. 20201

MEMORANDUM

To: Bob Steevens, Joe Dawson
From: Pat Faley through Roger Goldblatt

Subject: VK's Appearance before the National Retail Merchants
Association, January 11, 1982

I met with Tracy Mullin of the National Retail Merchants Association (NRMA) last week. Tracy is in charge of putting together the consumer affairs session over which Virginia will preside at NRMA's 71st Annual Convention at the New York Hilton, January 11 from 2:15 to 3:30.

Tracy has had some difficulty stimulating interest in consumer affairs among her member stores. Therefore she would like to have Virginia direct her session to address the issue "The Profitability of the Consumer Affairs Department." (This is pending approval from her New York office.) The format would have Virginia open with a 15 minute speech, then lead a panel of our choosing for 50 minutes, then sum up and close the session.

Before I spend time looking for panelists to fit the bill, I thought I'd better see if this idea agrees with you. Please let me know this week, if possible.

October 5, 1981

"OK" 10/9/81
VH

OCT 5 1981

THE WHITE HOUSE

WASHINGTON

August 28, 1981

Dear Ms. Mullin:

Thank you so much for your kind invitation to address the consumer affairs session of NRMA's 71st Annual Convention on Monday, January 11th in New York.

I am delighted to accept and look forward to the opportunity of addressing your association. A bio and picture is enclosed for information purposes, and please feel free to contact my staff for any further assistance you may need.

Sincerely,

Virginia H. Knauer
Special Assistant to the President

Enclosures

Ms. Tracy Mullin
Vice President and
Associate Director,
Governmental Affairs
National Retail Merchants Association
1000 Connecticut Avenue, NW
Washington, DC 20036

Speech

July 24, 1981

*NY Hilton
212-586-7000*

*Tracy Webb
1/15/82*

*Asst. Mgr. → \$73.⁰⁰
Sheraton Ctr.*

Honorable Virginia Knauer
Special Assistant to the President
Old Executive Office Building
17th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mrs. Knauer:

On behalf of the National Retail Merchants Association, I want to extend a warm invitation to you to address the consumer affairs session during NRMA's 71st Annual Convention, January 10 to 13 at the New York Hilton Hotel. The session, which is scheduled for Monday, January 11 from 2:15 until 3:30 p.m., is traditionally one of our most popular and best attended sessions. With past years as a guide, we can anticipate an audience of approximately 350 to 400 delegates.

Historically, this session has been used as a forum for a dialogue between leading retailers and consumer advocates. However, if you are able to accept this invitation, we would like to work with you and your staff to structure a session which is most conducive to the message you wish to convey. After hearing your remarks at the recent MACAP meeting in Arlington, I was impressed with the very great challenge your new position presents. I think our consumer affairs session could help you meet that challenge by providing you with a unique opportunity to enlist the support and assistance of a perceptive, knowledgeable and diversified audience.

As you know, NRMA is the nation's largest trade association for the general merchandise retail industry. Our members operate 40,000 department, chain and specialty stores across the country. Their annual sales are in excess of \$120 billion and they employ nearly 3 million workers.

1/11/82-free

27 JUL 1981

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F. W. Woolworth Co.
New York, New York

President
JAMES R. WILLIAMS
NRMA
100 West 31st Street
New York, New York

cc to Charlotte

Honorable Virginia Knauer
Page two
July 24, 1981

I hope you or your staff will be in touch with me if you have any questions about NRMA, our Annual Convention or this invitation. I know your remarks would add immeasurably to the success of our Convention.

Sincerely,



Tracy Mullin
Vice President, Associate Director
of Governmental Affairs

TM:edr
CC to: Patricia Faley

January 5, 1982

Mrs. Virginia Knauer
Special Assistant to the President
Old Executive Office Building
17th Street and Pennsylvania Avenue, N.W.
Room 436
Washington, D.C. 20500

Dear Mrs. Knauer:

I am taking this opportunity to send you the speaker's badge you will need in connection with your participation at the NRMA Convention Session, "Is Consumerism Dead?" scheduled from 2:15 to 3:30 p.m. in the Rendezvous-Trianon Room of the New York Hilton Hotel, Monday, January 11.

We are asking the session panelists to arrive at the Rendezvous-Trianon on the third floor of the Hilton Hotel no later than 2 p.m. so you may have an opportunity for a brief chat.

On behalf of NRMA, we greatly appreciate your participation in this session, and I personally look forward to seeing you again next week.

Sincerely,

Tracy Mullin

Tracy Mullin
Vice President, Associate
Director of Government Affairs

TM/pmm

Enclosure

cc: Char

JAN 6 1982

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