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REMARKS OF HON. R. E. FREER, CHAIRMAN,
FEDERAL TRADE COMMISSION,
BEFORE
THE RETAILERS' NATIONAL FORUM,
AFTERNOON OF MAY 22, 1939
MAYFLOWER HOTEL, WASHINGTON, D. C.

I appreciate very much this opportunity of saying a few words to an organization representative of all types of retail distribution, an organization composed of independent, chain, department and mail order store members meeting on common ground. Many of the major problems of retail distribution necessitate coordinated effort by all retailers rather than divergent activities by smaller groups seeking only to further their own interests at the expense of other groups of competing retailers.

The most startling thing in the field of distribution today is the renewed and awakened interest in distributional activities by consumers and consumer groups. All the signs now point to an ever-growing consumer scrutiny of selling practices. This so-called consumer movement is bound to have considerable effect upon retail distribution, and it is my feeling that, with intelligent support by retailers, much that is beneficial, not only to the consumers, but to retailers and manufacturers as well, can be secured.

The past few decades have seen tremendous advances in the processes of manufacture and distribution. Technological changes in fabrication, finishing and packaging have been legion. Where not so long ago most staple articles were sold to the public in bulk, and available for close customer inspection, they are now branded, packaged and highly advertised under fanciful trade names in a manner which often prevents the buyer from knowing exactly what he is getting. Particularly in the field of textiles changes in the art of production have resulted in fabrics composed of one fiber which so closely resemble those of other fibers that only a chemical analyst can be certain of their true composition. Gone are the days when the buying public could be certain that linen was linen, silk was silk, and wool really wool. Gone also are the days when foodstuffs were predominantly sold in bulk and available for inspection.

It seems to me that with the lessening of the opportunity for the buyer to make intelligent personal inspection of the wares he purchases, there has also come to pass a change in the relationship of the retailer to his customer. No longer does the rule of "Buyer Beware" govern retail distribution. Rather, the public must rely upon the retailer for expert and reliable advice in this complicated business of choosing from the many wares now on display. In other words, the retailer now more than ever must stand in a relationship to the public which is one of trust and confidence — and in cultivation of this trust relationship lies the retailer's greatest opportunity. Any retail outlet which enjoys the full and complete confidence of the community — any retailer regarded by the community as a thoroughly reliable and above-board merchandiser — knows full well that public confidence is the most valuable of all assets.

As you are doubtless aware, the Federal Trade Commission is empowered to, and does, proceed against use of unfair methods of competition and unfair or deceptive practices in interstate commerce, as well as certain forms of price discrimination. Many activities in the field of distribution which tend to destroy consumer confidence are made subject of Commission proceedings.

My subject is "The Federal Trade Commission and the Retailer." In the limited time available I cannot undertake even a brief discussion of all the activities of the Federal Trade Commission which affect retailers, and should like to mention only a few practices which are more or less prevalent in the field of retail distribution and which embody a tendency to undermine consumer confidence. I will not attempt to cover the whole field, nor to confine myself to those practices which necessarily violate the Federal Trade Commission Act, since the sole point I wish to make is that the retailer's greatest asset is public confidence, and that any practices which tend to undermine consumer confidence should be subjected to a most critical scrutiny by retailers themselves, irrespective of any positive requirements of law.

I am not going to dwell on the value of absolute truth in advertising, because that is apparent to anyone. Stores which continually advertise specially imported sale merchandise in a manner to create the impression that it is marked-down regular stock, or which feature deceptively a well-known article for sale when, for instance, only a few odd sizes are in stock or in any other manner mislead as to quality, price or origin, are bound to lose public confidence.

One of the first practices which the Federal Trade Commission considered and proceeded against when it was originally organized was that of bribing employees of retailers and other distributors to favor the goods of one manufacturer over those of competitors. Of the first 78 proceedings instituted by the Commission, 40 involved this type of practice. Cases of commercial bribery are no longer as frequent as they were, which is a tribute to the enlightened attitude of both manufacturers and distributors.

But a practice which in some respects is similar in that it has a tendency to undermine the retailer's status as an impartial and honest adviser to the consumer is that of giving and sanctioning "push money" or "spiffs". When a clerk accepts push money he is in effect making himself an agent of the manufacturer to favor that manufacturer's goods over competing articles, and loses his status as an impartial helper of the customer as well as dividing his loyalty to the storekeeper.

Still another practice which tends to undermine the public's ability to rely upon the retailer as an impartial adviser is found in so-called hidden demonstrators, or employees of a manufacturer acting as retail clerks without disclosing to the buying public that they are in fact employed by a manufacturer for the primary purpose of selling that manufacturer's goods in preference to competing articles on the retailer's shelves.

Recently a number of trade journals have carried advertisements by manufacturers pointing with pride to the fact that they offer the retailer the largest gross margin of profit of all similar merchandise. While I

appreciate that retailers must make a fair profit in order to stay in business, this type of competition, which has no necessary relationship to quality or inherent value, is, to my mind, unfortunate. The retailer who obtains a reputation for coloring his consumer advice by continually pushing the merchandise with the highest mark-up, irrespective of other considerations, will often find that he has sacrificed a great deal of long-run consumer good will to obtain an immediate larger profit.

But beyond refusing to engage in practices which tend to destroy confidence of the public, the retailer can do much to take advantage of the present consumer movement — to his own benefit as well as to that of the public.

It is a very human tendency for a salesman to tell a customer what that customer wants to hear about a product, solely because the salesman does not himself have adequate information and does not wish to appear uninformed. Thus inadequate sales information may be a very frequent cause of customer dissatisfaction.

I can recall at least one retail outlet of prominence which several years ago sent letters to its sources of supply complaining that even its expert buyers could not be sure of the exact nature of the goods purchased from the manufacturers, and requested pertinent information on labels and invoices. Since that time the Commission has approved trade practice rules for the Rayon and Silk Industries which require fiber content identification of fabrics and suggest, purely as a matter of good business practice, that labels also carry information helpful to the consumer on proper use and care of the materials. A number of very dire predictions were made by manufacturers of these textiles during the course of the Commission's consideration of the rules, and I am happy to say that none of them have come to pass. On the contrary, it is felt in many quarters that these rules, requiring consumer information in advertising and labeling, have proved a boon to the industries involved as well as to the buying public. In other words, it is the Commission's observation that business men generally are coming to realize the value of informative advertising and labeling simply and plainly as a business proposition.

In conclusion I want to say that it is a very encouraging sign that retailers are today directing their energies more and more toward solution of consumer problems rather than to building up the types of restrictions on competition which occupied so much of their attention not so long ago. That these restrictions on normal methods of distribution are finding their way into state and federal statutes is deplorable, but the reaction now taking place against them is certainly a healthy one, and I hope that your organization will find it possible to participate.