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**Published on:** 01 Apr 2000 - Journal of Marketing (American Marketing Association)

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# Slotting Allowances and Fees: Schools of Thought and the Views of Practicing Managers

Slotting allowances and fees have attracted considerable attention and controversy since their introduction in the mid-1980s. Currently, two schools of thought dominate the debate on these fees. One considers them a tool for improving distribution efficiency, whereas the other proposes that the fees operate as a mechanism for enhancing market power and damaging competition. Managers and public policymakers are uncertain as to the effects of slotting fees and the appropriate strategy to adopt. The current study attempts to inform the debate surrounding slotting fees and provide guidance to managers and policymakers. The authors summarize the arguments of the two schools and investigate the views of managers toward them through a large-scale survey of manufacturer, wholesaler, and retailer grocery institutions. Though exploratory, the findings suggest that slotting fees shift the risk of new product introductions and help apportion the demand and supply of new products. The authors find that slotting fees are also associated with the exercise of retailer market power, are applied in a discriminatory fashion, and lead to higher retail prices. The authors encourage further research that examines slotting fees and their effects and indicate prospective directions.

**T**he terms *slotting allowances* and *slotting fees* describe a family of marketing practices that involve payments by manufacturers to persuade downstream channel members to stock, display, and support new products. Table 1 describes various types of these fees. Slotting fee payments are usually negotiated in secrecy and required up front without public disclosure of their terms. Hardly known before the mid-1980s, they have recently attracted widespread attention and sparked considerable controversy. They now represent a significant cost to grocery manufacturers, and reports indicate they are becoming more widely used in other industries (e.g., computer software, compact discs, books, magazines, apparel, over-the-counter drugs, tobacco products). In the grocery industry, estimates suggest that slotting fees account for up to \$9 billion in annual promotional expenditures, or approximately 16% of all new product introduction costs (Deloitte & Touche 1990), and per-item store costs approximate \$5,000 to \$25,000 (Lucas 1996).

Two schools of thought currently dominate the debate on slotting fees. One views them as a tool for improving distribution efficiency and stimulating competition, and the other considers them a tool for enhancing market power and damaging competition. Retailers generally hold the former

view, whereas manufacturers tend to subscribe to the latter. Proponents of slotting fees contend that these fees improve the efficiency of channel distribution systems, because manufacturers use them to signal product quality and retailers rely on them to screen new products. Efficiency is also seen in the way that these fees can lead to more productive cost and risk sharing between manufacturers and retailers, better shelf-allocation decisions, and more effective apportionment of the supply and demand for new products. From this perspective, slotting fees are viewed as ultimately enhancing competition among highly efficient channel systems and lowering consumer prices in the process.

In contrast, opponents of slotting fees charge that the fees represent an unfair abuse of power by large retailers. Critics claim that large retailers use these fees to gain a competitive advantage over smaller rivals, as well as to discriminate among suppliers in a way that favors larger manufacturers. Proponents of this view argue that slotting fees damage channel relationships, hurt competition among both retailers and manufacturers, and create less product variety and higher consumer prices.

The slotting fee debate is similar to other prominent issues in marketing and economics. The long-standing controversy over the economic effects of advertising has generated similar discourse (Albion and Farris 1981). In both debates, discussion revolves around whether (1) large promotional expenditures in support of a product may be interpreted as a signal of quality by retailers and/or consumers (Albion and Farris 1981), (2) large manufacturers obtain more support or benefits from retailers (or the advertising media) per promotional dollar spent than do small manufacturers (Albion and Farris 1981), and (3) promotional expenditures are used as a means of excluding competitors. The debate is also similar to the controversy that exists over the effects of channel control initiatives (Stern and Eovaldi

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**TABLE 1**  
**Slotting Allowances and Fees**

Type of Fees	Description
Presentation fees	Fees paid for the privilege of making a sales presentation.
Slotting fees	Up-front payments of cash, promotional dollars, or merchandise to obtain shelf space for a product.
Display fees	Fees paid for special merchandising and display of products.
Pay-to-stay fees	Fees paid to continue stocking and displaying a product.
Failure fees	Fees paid when a product does not meet expected goals.

1984). Related questions arise when the ways in which channel coordination and market efficiency are affected by tying agreements, exclusive dealing, exclusive territories, resale price maintenance, or slotting fees imposed by a powerful channel member are considered.

Resolution of the slotting fee debate has important implications for public policy and channel management. To date, these fees have proved to be a difficult issue for the Federal Trade Commission, the Department of Justice, and many state attorneys general offices. On the basis of public statements, these antitrust enforcement agencies have given serious consideration to the possibility that slotting fees are illegal under the antitrust laws (see Bureau of National Affairs 1994; Commerce Clearing House 1991; Harps and Thayer 1997; Kiley 1990; McCabe 1996; Redman 1995; Sackovich 1998). However, no enforcement actions have been taken so far. Moreover, no private antitrust suits have produced a definitive judicial decision for slotting fees. One federal regulatory agency, though, has taken a strong stance against slotting fees. The Bureau of Alcohol, Tobacco and Firearms promulgated a rule in 1995 that prohibits these fees in the marketing of alcohol beverages (Gundlach and Bloom 1998).

For channel participants, slotting fees are a significant source of unresolved conflict that hampers efforts to develop and implement relationship-based practices as a source of competitive advantage. In the grocery channel, for example, attempts to develop and implement strategies of efficient consumer response (ECR) have been hampered by the acrimony over slotting fees. Conflict over these fees continues to be an industry concern.

This article adds to the growing literature on slotting fees. We adopt an exploratory approach, summarizing the previous literature and drawing on the results of a large-scale survey of grocery industry managers to provide insight. Thus far, most academic work has consisted of (1) legal analyses of how various statutes might treat slotting fees, (2) other public policy-related analyses, or (3) analytic efforts in which the potential effects of slotting fees are modeled. The Appendix summarizes these contributions. Notably missing is empirical research.<sup>1</sup> Our study contributes

<sup>1</sup>For an exception employing secondary data, see Sullivan (1997). For recent industry surveys, see Parch and De Santa (1997), *Progressive Grocer* (1996), *Supermarket Business* (1997), and Thayer (1997). For academic research indirectly addressing slotting fees, see Rao and McLaughlin (1989).

to this literature and therefore the debate over slotting fees through a survey of managers involved in the practice.

## Schools of Thought

Discussions of slotting fees in the academic literature and the trade press typically adopt one of two schools of thought. These schools are summarized in Tables 2 and 3 and are more fully explained subsequently. Key research questions are included in the tables and provide the basis for our empirical study.

### The Efficiency School

This school argues that slotting fees enhance the efficiency of new product distribution by serving as a means for signaling and screening new products and as a basis for achieving efficient cost sharing and risk shifting among manufacturers and retailers. Slotting fees are also thought to lead to more efficient shelf space allocation and demand/supply apportionment. Finally, efficiency school proponents claim that slotting fees provide competitive efficiencies as a facilitating practice for lowering retail prices. Each of these perspectives, as found in the literature, is described subsequently.

*Signaling and screening.* A key argument in favor of slotting fees is that they provide efficiencies to the process of new product introduction by (1) helping manufacturers communicate information to retailers regarding the likely success of product innovations and (2) helping retailers evaluate this information (Chu 1992; Kelly 1991; Lariviere and Padmanabhan 1997; Messinger and Chu 1995; Sullivan 1997; Toto 1990). Because of differing channel positions and market objectives, as well as other products vying for a retailer's interest, manufacturers are faced with the difficult task of convincing retailers of the probable success of their new products. This problem primarily concerns how to communicate, in a credible manner, information the manufacturer knows about its product. Retailers face difficulties in their assessment of this information, and their challenge is how to evaluate effectively the information provided.

As signaling and screening mechanisms, slotting fees are argued to help manufacturers credibly distinguish the product innovations they believe will be successful from those they do not and to help retailers effectively evaluate such distinctions. The offer to pay a slotting fee communicates or signals that the manufacturer has sufficient confi-

**TABLE 2**  
**Slotting Fees: The Efficiency School of Thought**

Perspective	Description	Research Questions
Signaling and screening	Slotting fees enable manufacturers to communicate and retailers to evaluate information regarding new products.	Do slotting fees help communicate information regarding new products? Can they signal the potential success of a new product? Can they aid in screening out risky products?
Cost sharing	Slotting fees compensate retailers for the increasing costs of introducing and managing new products.	Do slotting fees enable new product costs to be equitably shared among channel members? Have new product costs contributed to the use of slotting fees? Do these fees cover the new product costs incurred by retailers?
Risk shifting	Slotting fees help reallocate the risks of new product introductions to those best informed to control them.	Do slotting fees help efficiently allocate new product risks? Have they lowered the risk for retailers? Have they increased the risk for manufacturers?
Shelf space allocation	Slotting fees enable retail shelf space to be allocated to its best possible use.	Do slotting fees enable shelf space to be efficiently allocated? Are slotting fees simply a bid for shelf space rental? Are retail product assortment decisions based on slotting fees?
Demand/supply apportionment	Slotting fees help equate the supply of new products and their demand by consumers.	Do slotting fees help apportion an oversupply of new products with a less-than-commensurate demand for them? Has new product proliferation led to slotting fees? Has a lack of perceived product innovation by consumers led to slotting fees?
Facilitating practice for lowering retail prices	Slotting fees provide a means for increasing retail competition.	Do slotting fees help lower retail prices? Have prices decreased as a result of slotting fees?

dence in the success of its new product that it is willing to absorb the cost of the fee. Manufacturers are assumed to be able to recoup such payments for successful innovations, but not for product failures. Retailers may require slotting fees and then observe the magnitude of payment or nonpayment to evaluate the credibility of information manufacturers provide and screen out potentially unsuccessful products. By setting slotting fees high enough so that only manufacturers that pay them are those confident they can recover the fees, a retailer is argued to be better able to identify successful new products.

*Cost sharing.* Proponents of slotting fees also contend that slotting fees compensate retailers for the increasing costs of introducing and managing a proliferation of new products that are argued to be neither adequately researched nor supported by manufacturers (Lariviere and Padmanabhan 1997; Toto 1990). Retailers assert that manufacturers should share in these costs. Manufacturers disagree, claiming that the actual amounts paid for slotting fees often bear little relation to actual new product costs.

Retailers tend to view slotting fees as covering the elevated costs of overhead, warehousing, personnel, and computer time, plus the opportunity costs of forgoing more profitable products, including private label brands. Although few data are available, research suggests that retailers incur significant costs when they introduce new products. A key question is whether slotting fees actually reflect these costs. One study by Deloitte & Touche (1990) indicates that, on a per-stockkeeping unit (SKU)

basis, costs (exclusive of opportunity costs) average \$13.51 per store, and costs to delete an item average \$10.77. This study also found per-store slotting fees to average \$36.34.

*Risk shifting.* Another efficiency argument in support of slotting fees is that they help shift the risk of new product acceptance away from retailers and back to manufacturers, which are assumed to be in a better position to control this risk through research and support (Kelly 1991; Sullivan 1997; Toto 1990). This view is based on the classic economic principle that exchange enables parties to allocate risk efficiently in a manner beneficial to both. In theory, market exchanges lead to the allocation of risk to those best able, in a cost sense, to control it. One factor influencing the level of risk is information. If one firm possesses more information than another, the former firm is assumed to be in a better position to control the risk. In the absence of restrictions, economic theory predicts that market exchange will allocate risks to those with more information.

With regard to new products and their risk of failure, the contention is that manufacturers—as the source of product innovation—are more informed. Therefore, in theory, they should bear more risk than retailers in the introduction of a new product. Given the nature of distribution channels, however, the risk of new product introduction is often borne more heavily by the retailers. Slotting fees are argued to be a mechanism for efficiently reallocating some of this risk back to manufacturers.

TABLE 3

## Slotting Fees: The Market Power School of Thought

Perspective	Description	Research Questions
Exercise of market power by retailers	Slotting fees reflect the exercise of acquired market power on the part of retailers toward manufacturers.	Do slotting fees reflect the exercise of market power? Have these fees provided retailers with influence over manufacturers? Manufacturers over retailers? Are larger retailers better able to require slotting fees than smaller firms? Have they earned greater profits from these fees?
Channel relationships	Slotting fees have damaged manufacturer and retailer relationships, leading to concerns for channel efficiency.	Do slotting fees undermine cooperation in the marketing channel? Have slotting fees reduced the flow of information between firms? Have they affected manufacturer marketing support and/or consumer-directed promotion?
Discrimination	Slotting fees enable retailers to discriminate among manufacturers, particularly large versus small firms.	Do slotting fees serve as a mechanism for discrimination by retailers? Do all manufacturers pay the same amount? Are fees negotiated? Are smaller manufacturers affected more than larger manufacturers?
Competitive foreclosure	Slotting fees are a competitive mechanism that enables larger and more resourceful competitors to foreclose smaller rivals from access to required inputs, such as retail shelf space.	Do slotting fees enable larger and more resourceful manufacturers to undermine the competitive survival of their rival firms? Have slotting fees differentially affected the number of new products introduced and the innovativeness of new products by larger versus smaller manufacturers? Have some manufacturers sought alternative channels for their products as a result of slotting fees? Have some exited the industry? Have good products been foreclosed from the marketplace?
Facilitating practice for raising retail prices	Slotting fees provide a means for diminishing retail competition.	Do slotting fees increase prices? Have prices increased as a result of slotting fees?

*Shelf space allocation.* Advocates of slotting fees also contend that these fees enable a scarce retail resource, namely, shelf space, to be allocated to its best possible use (Toto 1990). Under this view, shelf space is considered a commodity, and manufacturer-paid slotting fees are considered an auction-like bid for the “rental” of such space. The assumption is that the manufacturer that tenders the highest bid is also in the best competitive position to generate the greatest shelf space returns by providing products in the form and variety most desired by consumers. Retailers basing product assortment decisions on which manufacturers are willing to pay higher slotting fees are therefore argued to be allocating shelf space in a way that optimizes consumer utility.

*Demand/supply apportionment.* Still another efficiency-based argument is that slotting fees help equate an oversupply of new products with a less-than-commensurate consumer demand for them (Sullivan 1997). Two key contentions of this view are that product proliferation has led to an oversupply of new products compared with their marketplace demand and that many of these new products lack true innovation. Under such circumstances, slotting fee payments are argued to induce retailers to accept new products they would reject otherwise because of their belief that the additional costs of offering the new product will not be offset by incremental revenue.

The costs of adding new products at the retail level involves the one-time inventory and shelving costs as well as subsequent carrying, restocking, and reordering costs. If these costs are accompanied by consumers seeking innovation or consumers benefiting from the added variety and lower search costs of truly new products, enhanced sales and the ability to charge higher prices enable retailers to recover these costs. If, however, enhanced sales do not occur or if consumers are not willing to pay a price premium, these costs are more difficult to recover. Under such circumstances, retailers are argued to resist adding new products in the absence of additional incentives, such as slotting fees.

*Facilitating practice for lowering retail price.* A final efficiency argument characterizes slotting fees as a mechanism for lowering retail prices. Under this view, the up-front payment of slotting fees is characterized as unbundling the cost of shelf space from the product transaction (see Sackovich 1998). This unbundling is argued to effectively reduce the unit price paid by retailers for new products, enabling them to compete more aggressively in their pricing downstream, which results in lower consumer prices. It is also suggested that the efficiencies obtained through slotting fees in screening, cost sharing, risk shifting, and shelf space allocation permit more aggressive competition and therefore lower prices.

### **The Market Power School**

Opponents of slotting fees are not persuaded by claims of competitive efficiencies for slotting fees but rather regard these fees as enhancing market power and diminishing competition. According to this school, slotting fees are argued to be an exercise of retailer market power in the market channel that undermines channel relationships and leads to retail discrimination. Slotting fees are also argued to damage manufacturer competition through their use as a strategy of competitive foreclosure. Finally, slotting fees are claimed to diminish retail competition by serving as a facilitating practice for increasing retail prices. Each of these perspectives, as found in the literature, is explained below and summarized in Table 3, which also contains relevant research questions.

*Exercise of retailer market power.* Opponents of slotting fees point to their use in the context of increasing retailer power and influence (Chu 1992; Lariviere and Padmanabhan 1997; Messinger and Chu 1995; Sullivan 1997; Toto 1990). Power in this case refers to the ability to set prices at other-than-competitive levels. Control over price is claimed to be exercised and exploited by retailers by instituting slotting fees for accepting new products, providing shelf space, or supplying other services to manufacturers.

A critical assumption is that retailers have obtained increased power in their relationships with upstream channel members. In support of this assumption, opponents of slotting fees contend that through consolidation, technological advancements, and new product proliferation, grocery retailers have acquired increasing market clout. The large number of retail mergers is cited as one factor contributing to the trend toward increased market concentration and power for grocery retailers in many geographic markets. Retailer power is also argued to have been enhanced as a result of the introduction of scanner technology. This advancement yields information that enables retailers to assess faster and with greater precision the profitability of a particular product. Wielding this information, retailers are able to negotiate terms (including slotting fees) more forcefully for these products, as well as for related new products. Finally, the increasing number of new products introduced into the market is also cited as having contributed to more retailer market power. A greater number of products elevates the demand for shelf space held by retailers. Critics, having obtained enhanced market power as a result of these trends and advancements, contend that slotting fees simply are a mechanism for exercising this increased market power.

*Channel relationships.* The market power school also contends that the controversy between manufacturers and retailers over slotting fees has become a source of dysfunctional conflict in channel relationships. According to this view, tension and disagreement has reached such levels in some channels that it has damaged cooperation among members ostensibly positioned to complement one another in delivering consumer value (Dagnoli and Freeman 1988; Lucas 1996). Some commentators claim the dispute over slotting fees is the single greatest challenge to the future health of the grocery industry (Lucas 1996). Many contend

that the trade must join together to solve the controversy if the industry is to move forward and realize the benefits of innovative supply-chain management initiatives such as ECR (Kurt Salmon Associates Inc. 1993).

Dysfunctional conflict over slotting fees can disrupt critical tasks required for an efficient and competitive channel system. Tension may reduce the otherwise ongoing flow of information between channel members. Disagreement over the role of slotting fees can lead to unintended consequences. One illustration is the impact of slotting fees on the level of marketing support and promotional strategies by manufacturers. Unpersuaded by retailer explanations for slotting fees and believing they are merely employed to bolster retailer profits, many manufacturers are said to cover these fees through shifting marketing funds from other promotional areas, including consumer programs. According to critics, such practices and other outcomes of the controversy over slotting fees result in the inefficient allocation of marketing resources and less consumer information.

*Discrimination.* Still another market power argument is that slotting fees provide a basis for price/promotion discrimination among manufacturers, particularly favoring large firms over smaller ones (Aalberts and Judd 1991; Desiraju 1994; MacAvoy 1997; Sullivan 1997). Given the private and negotiated nature of slotting fees, retailers are said to be able to ask for and receive differential payments from different manufacturers. A particular contention is that some manufacturers can negotiate lower fees or avoid them altogether, leaving other firms to pay disproportionately. Larger manufacturers, given their market size and bargaining position, are argued to benefit from these practices by increasing their profits to the disadvantage of their smaller, less resourceful rivals. Although the laws for price discrimination are complex and open to interpretation (see Aalberts and Judd 1991), the Federal Trade Commission has indicated that the discriminatory application of slotting fees may be unlawful (Federal Trade Commission Guides 1990).

*Competitive foreclosure.* Slotting fees are also criticized as a competitive strategy used by more resourceful competitors to foreclose smaller rivals from the market through bidding up the price of shelf space (MacAvoy 1997). Given distribution dynamics, in many market channels, shelf space is considered an essential input or facility for producers and manufacturers. By bidding up the price of this input through slotting fee payments, more resourceful competitors can raise their rivals' costs with the aim of denying them access to such input or leaving them less able to compete. According to this argument, such efforts are employed to raise disproportionately the costs of new product introductions for smaller, less resourceful manufacturers—resulting in diminished profits and less innovation by these firms. Foreclosed firms are forced to seek alternative channels for their products or possibly even exit the industry. The end result, critics contend, is that consumers are deprived of worthwhile new products.

*Facilitating practice for raising retail prices.* A final objection to slotting fees is that their up-front payment and direct impact on retailer profits lessen aggressive retail com-

petition, leading to higher prices. As Shaffer (1991, p. 121) explains,

In providing a means for retailers to commit contractually to high prices, a manufacturer indirectly raises retailer profits by eliminating their incentive for aggressive downstream pricing. Although manufacturers would prefer lower retail prices and hence greater sales, the competition among themselves for the scarce shelf space provides the incentive for such contracts.

Slotting fee payments are argued to result indirectly in higher retail prices by providing up-front profits to retailers and in turn lowering retailers' incentive to compete vigorously on price. Manufacturers, though desirous of lower retail prices, pay slotting payments because of the intense competition for shelf space.

## Method

To begin to understand which school of thought better describes slotting fees, a large-scale mail survey of managers in industries in which slotting fees are practiced was conducted. Given the early stage of theory development and the paucity of empirical evidence, the views of industry participants were deemed important for advancing knowledge and guiding further research. The objective was not to test formally the various "possibility theorems" underlying each school of thought but to determine the extent to which industry participants believe each theorem accurately reflects slotting fee practices.<sup>2</sup> Another objective was to investigate how the opinions of retail, wholesale, and manufacturer managers compared. Opinions about which there was considerable debate were thought to require more specific investigation than those effects about which there was consensus.

### Preliminary Research

The survey design was influenced by a review of relevant trade press articles and ten preliminary in-depth interviews with executives from industries in which slotting fees are practiced (i.e., consumer packaged goods, pharmaceuticals, musical recordings, and books). These interviews yielded several insights:

- *Grocery industry sample:* Differences in the way slotting fees are used across industries indicated that comparisons across industries would be difficult and suggested a focus on one industry. The grocery industry, in which slotting fees are most common, was chosen.
- *Manufacturer, wholesaler, and retailer participants:* Observations and opinions about slotting fees varied depending on the channel level, suggesting that the views of managers representing differing channel positions should be obtained. For the grocery industry, three channel levels are relevant—manufacturers, wholesalers, and retailers.
- *Manager informants:* Although boundary-spanning personnel were responsible for negotiating and implementing slotting

fees, the budget impact and strategic nature of these fees meant that knowledge of their practice was necessary at both the operational and strategic levels of the firms. This suggested that the focus should be managers occupying positions at both levels. Within the grocery industry, retailer managers responsible for procurement and merchandising are the most involved, whereas for manufacturers, marketing and sales managers have the most experience. For wholesalers, which both pay and receive slotting fees, appropriate representatives include procurement and sales/marketing personnel.

- *Confidentiality and anonymity in data collection:* Slotting fees were an emotional and sensitive topic, which led many managers—particularly those in retailing—to be unwilling to speak "on the record." This suggested that special attention should be given to maintaining confidentiality and anonymity in data collection and analysis.
- *Sample design and measurement considerations:* Managers were very busy and were deluged with surveys, which suggested that particular attention should be paid to (1) respondent participation through sampling design and nonresponse bias testing and (2) respondent fatigue through instrument design, measures, and measure assessment.

### Grocery Industry Survey

Using a short questionnaire (one folded-over legal-size sheet of paper with closed-ended questions) and a cover letter that stressed the involvement of our universities and the Marketing Science Institute, we conducted an industry-wide mail survey of managers representing manufacturer, retailer, and wholesaler grocery institutions.

*Sample.* Mailing lists purchased from *Supermarket News* (for grocery retailers and wholesalers) and Cahner's Direct Marketing (for manufacturers in the category of "marketing personnel in the prepared foods industry") provided the sample frame. A random sample drawn from each list resulted in an initial mailing of 2568 questionnaires—1210 to manufacturers, 1184 to retailers, and 174 to wholesalers.<sup>3</sup> The cover letter and questionnaire were sent to all sample members in the fall of 1996. A week later, each recipient was sent a reminder postcard. Three weeks after the initial mailing, a follow-up letter and second questionnaire were sent to all sample members. To ensure anonymity and confidentiality, no tracking of respondents was attempted. Because of incorrect addresses or respondents unfamiliar with the topic, 110 mailings were returned not completed, which reduced the qualified sample to 2458. Overall, a total of 802 completed questionnaires were returned—including 285 from retailers, 379 from manufacturers, and 91 from wholesalers—for a 33% response rate. An additional 47 respondents classified their firms as being involved in activities at more than one channel level and were left out for separate study.<sup>4</sup> Because wholesaler respondents indicated that their

<sup>3</sup>Our smaller sample for wholesalers follows the proportionately fewer wholesaler institutions found in the grocery industry compared with manufacturers and retailers.

<sup>4</sup>Because of the finding that observations and opinions of slotting fees varied depending on the channel level focused on and because our study objective was to investigate these differences, respondents who reported their firm was involved in multiple channel-level activities were excluded from the analysis.

<sup>2</sup>According to Fisher (1989), "possibility theorems," also called "exemplifying theory," involve postulates about what *can* happen relative to a particular phenomenon rather than postulates about what *will* happen. In this way, possibility theorems differ from more general theorems or generalizing theory.

channel level both paid and received slotting fees, the analysis focused on the responses of retailers and manufacturers.<sup>5</sup>

*Key informants.* The perceptions and opinions of grocery industry managers were sought. For retailers, buyers, merchandisers, and their managers best met the criteria of being knowledgeable about the phenomenon under study. For manufacturers, marketing, sales, and product management personnel were considered most knowledgeable. Table 4 provides a summary of respondent and firm characteristics.<sup>6</sup> Respondent titles and average industry experience suggest that the sample includes knowledgeable informants. The respondents also represented firms of various sizes and geographic markets.

*Tests of nonresponse bias.* Early and late respondents were compared for industry experience, business (i.e., retailer versus manufacturer), firm size, and geographic markets

<sup>5</sup>Wholesaler respondent views generally parallel those found in the aggregate sample. Results for the wholesaler respondents are available from the authors.

<sup>6</sup>Questionnaire items were worded precisely as indicated in Table 4. Although these response cues and categorization methods made it easier for respondents to answer the questions, the categories make it difficult to compare the sample with the population. Census data suggest that the proportion of smaller firms in the population may be higher than represented in this sample. For example, according to the U.S. Census of Retail Trade, 1992 (1995), 79% of grocery retailers had fewer than 20 employees, and 72% reported annual sales of less than \$1 million—and similar distributions were found among different categories of manufacturers. Compared with the data in Table 4, it appears that this sample includes a somewhat higher proportion of larger firms than does the overall population.

served (i.e., global, national, regional, or local). Early respondents were slightly less experienced (i.e., an average of 20 years versus 23 years,  $p < .01$ ) but were similar on other measures. Telephone interviews were also conducted with 154 randomly selected sample members, both retailers (80) and manufacturers (74). Of those contacted, 52 (34%) confirmed their completion and return of the questionnaire—a response rate similar to the mail survey. Those who had not received or not returned the questionnaire were asked three questions, and their responses were compared with the completed questionnaires. Although nonrespondents had somewhat less industry experience than respondents (16.5 versus 21.3 years,  $p < .01$ ), no significant differences were found for questions about firm size and the growth of the use of slotting fees. Finally, the answers to two additional questions asked of all telephone contacts (regardless of questionnaire receipt/disposition) were compared across the self-reported responders and nonresponders. No significant differences were found for questions about the contacts' knowledge of slotting fees or their views on the importance of the fees. In summary, except that respondents may be slightly more experienced than nonrespondents, little evidence of potential nonresponse bias was observed.

*Measures and measurement assessment.* Concern for respondent participation and fatigue limited the questionnaire length and constrained the number of measurement items that could be included. Multiple-item scales were not feasible. The employed items are shown in Table 5. The rationale for the content of most items should be reasonably clear from the previous discussion. Measures were designed to learn respondents' perspectives on the research questions outlined in Tables 2 and 3. The basis for the content of other items is elaborated on in the next section.

**TABLE 4**  
**Characteristics of the Respondents and Their Firms**

	Manufacturers	Retailers
<b>Respondents</b>	<b>379</b>	<b>285</b>
<b>Job Titles</b>		
President, owner, chief executive officer	6%	9%
Vice president	26%	18%
Sales management <sup>a</sup>	40%	
Category manager		18%
Marketing/product management <sup>a</sup>	16%	
Buyer/merchandiser		18%
Directors/managers (usually of procurement)		36%
<b>Industry Experience</b>	<b>18.1 years</b>	<b>24.9 years</b>
<b>Size of Firm</b>		
One of the biggest in the industry	23%	19%
Mid-size firm	36%	27%
Smaller firm	40%	52%
<b>Geographic Market Served</b>		
Worldwide	23%	2%
National	41%	6%
Regional	32%	37%
Local	4%	53%

<sup>a</sup>Eleven respondents listed themselves as directors of sales and marketing and are included in both of these categories.

Notes: Totals may not equal 100% because of rounding or "other" responses.



**TABLE 5**  
**Measures and Results**

Measure	Response Cues	Manufacturers	Retailers	Difference <sup>a</sup>
<b>Efficiency School</b>				
Signaling and screening				
Slotting fee size is a good indicator of the likely success of a new product.	s.d.–s.a. <sup>b</sup>	1.49*	2.02*	m*
If a manufacturer is unable or unwilling to pay a slotting fee for a product, then a retailer is justified in viewing that product as too risky to carry.	s.d.–s.a.	1.75*	2.49*	m*
What effect have slotting fees had on the percentage of successful new product introductions?	l.d.–l.i. <sup>c</sup>	–.18 <sup>e</sup>	+ .10	m*
Cost sharing				
Slotting fees have come about as a result of increasing costs of handling products.	n.f.–m.f. <sup>d</sup>	2.76*	3.85*	m*
The amount charged for slotting fees does not cover the costs a retailer incurs in adding a new product.	s.d.–s.a.	1.73*	3.43*	d*
Risk shifting				
Slotting fees simply shift the risk of product introductions away from retailers and back to manufacturers.	s.d.–s.a.	3.56*	3.17	m*
What effect have slotting fees had on the risk in new product introductions for manufacturers?	l.d.–l.i.	+ .82*	+ .49*	m*
What effect have slotting fees had on the risk in new product introductions for retailers?	l.d.–l.i.	–.57*	–.09	m*
Shelf space allocation				
Slotting fees are simply rent for shelf space.	s.d.–s.a.	3.72*	2.54*	d*
Retailer product assortments are often based on slotting fees.	s.d.–s.a.	3.78*	2.50*	d*
Demand/supply apportionment				
Slotting fees have come about as a result of growth in the number of new products introduced.	n.f.–m.f.	3.80*	4.17*	m*
Slotting fees have come about as a result of fewer truly new products.	n.f.–m.f.	2.75*	3.23*	m*
Facilitating practice for lowering retail prices				
What effect have slotting fees had on the prices charged by retailers?	l.d.–l.i.	+ .58*	+ .25*	m*
<b>Market Power School</b>				
Exercise of market power by retailers				
Slotting fees have come about as a result of greater retailer influence.	n.f.–m.f.	4.11*	3.37*	m*
Compared to five years ago, retailers are much more likely to require slotting fees.	s.d.–s.a.	4.35*	3.81*	m*
What effect have slotting fees had on the retailer's influence over product merchandising decisions?	l.d.–l.i.	+ .94*	+ .59*	m*
What effect have slotting fees had on the manufacturer's influence over product merchandising decisions?	l.d.–l.i.	+ .02	+ .43*	m*
Large retailers are more likely to require slotting fees than small retailers.	s.d.–s.a.	4.08*	4.19*	
What effect have slotting fees had on profit levels of smaller retailers?	l.d.–l.i.	+ .32*	+ .18 <sup>e</sup>	
What effect have slotting fees had on profit levels of larger retailers?	l.d.–l.i.	+1.12*	+ .69*	m*

**TABLE 5**  
**Continued**

Measure	Response Cues	Manufacturers	Retailers	Difference <sup>a</sup>
<b>Channel relationships</b>				
Slotting fees have damaged manufacturer–retailer cooperation.	s.d.–s.a.	3.89*	2.42*	d*
Slotting fees have decreased the flow of information between manufacturers and retailers.	s.d.–s.a.	3.03	2.08*	d*
What effect have slotting fees had on the amount of marketing support provided by manufacturers?	l.d.–l.i.	–.26*	+.21* <sup>e</sup>	d*
Slotting fees have resulted in less consumer-directed marketing.	s.d.–s.a.	3.87*	2.50*	d*
<b>Discrimination</b>				
All manufacturers pay the same amount of slotting fees per SKU per store.	s.d.–s.a.	1.47*	1.69*	m*
Manufacturers are often able to negotiate lower slotting fees.	s.d.–s.a.	3.22	3.25*	
Compared to five years ago, slotting fees are more likely to be negotiated.	s.d.–s.a.	3.22* <sup>e</sup>	3.40*	
What effect have slotting fees had on the profit levels of smaller manufacturers?	l.d.–l.i.	–1.12*	–.54*	m*
What effect have slotting fees had on the profit levels of larger manufacturers?	l.d.–l.i.	–.23*	.15* <sup>e</sup>	d*
<b>Competitive foreclosure</b>				
Manufacturers have sought alternative distribution channels for their products as a result of slotting fees.	s.d.–s.a.	3.85*	2.80* <sup>e</sup>	d*
Slotting fees have caused manufacturers to exit our industry.	s.d.–s.a.	3.34*	2.19*	d*
Slotting fees prevent good products from getting to market.	s.d.–s.a.	4.09*	2.28*	d*
What effect have slotting fees had on the number of new product introductions by smaller manufacturers?	l.d.–l.i.	–1.19*	–.57*	m*
What effect have slotting fees had on the innovativeness of new product introductions by smaller manufacturers?	l.d.–l.i.	–.45*	–.10	m*
What effect have slotting fees had on the number of new product introductions by larger manufacturers?	l.d.–l.i.	+.25*	+.39*	
What effect have slotting fees had on the innovativeness of new product introductions by larger manufacturers?	l.d.–l.i.	+.32*	+.41*	
<b>Facilitating practice for raising retail prices</b>				
What effect have slotting fees had on the prices charged by retailers? <sup>f</sup>	l.d.–l.i.	+.58*	+.25*	m*

<sup>a</sup>Results of tests of differences between responses of retailers and manufacturers, m = magnitude difference, d = direction difference. A direction difference indicates that the results differ between manufacturers and retailers. A magnitude difference indicates that the reported results from manufacturers and retailers are statistically different at  $p < .01$ .

<sup>b</sup>Response cues: 1 = strongly disagree (s.d.), 5 = strongly agree (s.a.); test value for significance tests = 3 (neither agree nor disagree).

<sup>c</sup>Response cues: –2 = large decrease (l.d.), 0 = no effect, +2 = large increase (l.i.); test value for significance test = 0 (no effect).

<sup>d</sup>Response cues: 1 = not a factor (n.f.), 5 = major factor (m.f.); test value for significance test = 1 (not a factor).

<sup>e</sup>This item loses statistical significance when a more conservative Bonferroni-corrected  $p$ -value is applied. All Bonferroni-corrected values were calculated on the basis of the number of tests within a particular theory. Thus, for example, for the six tests (3 items  $\times$  2 groups) of signaling/screening, the  $p$ -value was adjusted from  $p < .01$  to  $p < .00167$  (=  $.01/6$ ).

<sup>f</sup>This question also appears under Efficiency School.

\* $p < .01$ .

Standard measurement analysis was not feasible; however, a check for response reliability across items was included. Each questionnaire contained one duplicate item

spaced reasonably apart. Responses for these duplicate items were compared, and no significant mean differences were found. The items were reasonably correlated ( $r = .65$ ;

$p < .001$ ), which suggests that respondents were attentive and involved in their questionnaire completion. Further evidence of high involvement is indicated by 42% responding to an open-ended concluding question that allowed respondents to offer comments on the practice of slotting fees or the questionnaire.

## Results and Discussion

The results from the survey are presented in Table 5. The mean of each item for the manufacturer and retailer respondents is shown. Unless otherwise indicated, reported values differ from the test value at a level of .01 or less.<sup>7</sup> Significance tests are compared with each relevant scale point (see footnotes b, c, and d at the bottom of Table 5); for example, on Likert scales, with endpoints labeled strongly agree/strongly disagree, tests compared the responses with the midpoint. The fifth column in Table 5 indicates whether statistically significant differences in the magnitude and/or direction of the responses exist between the manufacturer and retailer samples.

### Findings on the Efficiency School

*Signaling and screening.* The results suggest that manufacturers and retailers do not believe that slotting fees serve as a signal or screen for new products. Both manufacturers (1.49) and retailers (2.02) disagree (five-point scale, “strongly disagree” to “strongly agree”) that “slotting fee size is a good indicator of the likely success of a new product.” Agreement would suggest that slotting fees provide some form of information signal. Manufacturers (1.75) and retailers (2.49) also disagree that “if a manufacturer is unable or unwilling to pay a slotting fee for a product, then a retailer is justified in viewing that product as too risky to carry.” This suggests that they do not view slotting fees as a screening mechanism for new products.

The results also do not indicate that slotting fees are used unconsciously as a signal or screen. Reports of increases in successful new product introductions would suggest that signaling and screening is occurring whether or not it is recognized. Responses to the question, “What effect have slotting fees had on the percentage of successful new product introductions?” average to very near “no effect” (the center point) for retailers (+.10,  $p = \text{n.s.}$ ; five-point scale, “large decrease” to “large increase”) and to a slight decrease for manufacturers (-.18).

Viewed together, these findings appear to counter claims of efficiency that arise from the use of slotting fees as a signal or screen for new products. The findings differ from the ideas advanced in the extant literature by several scholars applying theoretical models to the study of slotting fees but are consistent with the findings of others. Work by Chu (1992; Messinger and Chu 1995) and Lariviere and Padmanabhan (1997) analytically models the role of slotting fees as a mechanism for conveying new product information under various circumstances. Sullivan (1997), employing

secondary data, provides some empirical support for the signaling view. In contrast, our findings are consistent with an empirical study of actual new product adoption decisions conducted by Rao and McLaughlin (1989), who did not find slotting fees to significantly influence the decision to accept or reject a new product.

*Cost sharing.* The results also suggest that though manufacturers and retailers view the increasing costs of new products as a factor in the development of slotting fees, they do not believe that equitable cost sharing occurs as a consequence of these fees. On a scale of one (“not a factor”) to five (“major factor”), retailers average 3.85 and manufacturers 2.76 in response to the statement, “Slotting fees have come about as a result of increasing costs of handling products.” Our assumption was that respondents first needed to consider increasing costs a causal factor driving slotting fees if they were to observe an opportunity for cost sharing.

The relation of new product costs to the amount charged for slotting fees was also explored as a basis for understanding the extent of cost sharing that might be taking place. Retailers (3.43) agree that “the amount charged for slotting fees does not cover the costs a retailer incurs in adding a new product,” whereas manufacturers (1.73) disagree. Thus, whereas retailers believe that the fees do not completely compensate them for the costs of adding a new product, manufacturers believe they do—and possibly exceed such costs.

In general, the manufacturer findings are consistent with Deloitte & Touche’s (1990) study, suggesting that slotting fee amounts exceed the costs to add a new product and delete an old one. However, Deloitte & Touche’s study does not consider opportunity costs, which may be factored in by the retailer respondents in our study. This may partially explain the difference in opinion between the retailer and manufacturer respondents.

*Risk shifting.* The results suggest that respondents believe that slotting fees have resulted in some risk shifting from retailers to manufacturers. Manufacturers (3.56) agree that “slotting fees simply shift the risk of product introductions away from retailers and back to manufacturers,” whereas retailers neither agreed nor disagreed (3.17,  $p = \text{n.s.}$ ). As to the amount of risk, both manufacturers (+.82) and retailers (+.49) report that slotting fees increase the “risk in new product introductions for manufacturers.” Alternatively, manufacturers (-.57) view a decrease in the “risk in new product introductions for retailers,” which was not reported by retailers (-.09,  $p = \text{n.s.}$ ). In summary, although both parties see changes in the risk of new product introductions, manufacturers report that this risk is shifting from retailers to manufacturers, whereas retailers report that it is increasing for manufacturers without a corresponding decrease in their own risk.

The assumption of some scholars (see Kelly 1991; Sullivan 1997; Toto 1990) is that this shift moves the risk of new product failure to the more informed channel member—the manufacturer as the source of innovation. Although the findings support the idea that slotting fees shift such risk to manufacturers, this study did not investigate the assumption that manufacturers are more informed than retailers about a new product’s potential success or failure.

<sup>7</sup>Given the large number of tests, a relatively conservative  $p$ -value was chosen. In addition, footnote “e” in Table 5 indicates those comparisons that were not statistically significant with a more conservative Bonferroni correction adjusted  $p$ -value.

*Shelf space allocation.* Respondents differ in how they view slotting fees affecting the allocation of shelf space and the fees' relation to product assortment decisions. Addressing the logic that shelf space is a commodity and slotting fees act as bids for shelf space rental, manufacturers (3.72) agree that "slotting fees are simply rent for shelf space," but retailers (2.54) disagree. Focusing on retailer product assortment decisions and their connection to slotting fees, manufacturers (3.78) again agree that "retailer product assortments are often based on slotting fees," but retailers (2.50) disagree.

The mixed results do not directly assess Toto's (1990) assertion that the fees help retailers assign scarce retail shelf space to its best possible use. The results, however, do suggest that manufacturers agree with the underlying assumptions but that retailers tend to disagree.

*Demand/supply apportionment.* Two questions in our survey are consistent with the view that slotting fees help apportion an oversupply of new products if a less-than-commensurate demand for these products exists. In relation to the logic that an oversupply of new products has led to slotting fees, "growth in the number of new products introduced" was ranked (five-point, "not a factor" to "major factor") first among nine factors by retailers (4.17) and second by manufacturers (3.80). Among the same nine factors, manufacturers (2.75) and retailers (3.23) identify "fewer truly new products" as a moderate influence on the use of slotting fees (e.g., ranked eighth by manufacturers and sixth by retailers).

Thus, the results provide some support for the logic of apportionment advanced by Sullivan (1997). The results indicate that slotting fees may help apportion an oversupply of products that lack truly innovative features. One possible explanation for the differential weighting of the supply and demand influences by each group may be the particular perspective that informs each. Given their respective roles, retail managers may be more sensitive to supply (versus demand) influences on the use of slotting fees.

*Facilitating practice for lowering retail price.* Finally, contrary to the view that contends that slotting fees enable retailers to compete more aggressively by unbundling the price of shelf space from the product, the results suggest that slotting fees contribute to higher retailer prices. According to both manufacturers (+.58) and retailers (+.25), slotting fees have had the effect of increasing "prices charged by retailers."

These findings are in contrast to the findings of Sullivan (1997), whose analysis of secondary data shows that retail prices had not increased relative to other prices during the period in which slotting fees were first introduced and became prevalent. Sullivan postulates that by paying slotting fees up front, manufacturers unbundle the price paid for space from the new product transaction, which results in more aggressive price competition. Although our study does not directly test Sullivan's (1997) logic, the obtained results do not support her conclusion. One view is that even though manufacturers pay slotting fees up front, they consider the costs of these fees in calculating their price to consumers (e.g., they do not unbundle the price paid for space from the new product transaction).

## **Findings on the Market Power School**

*Exercise of market power by retailers.* Although the nature of power and influence held by retailers continues to be under debate (see Farris and Ailawadi 1992; Kim and Staelin 1996; Messinger and Narasimhan 1995), the study results tend to support the contention that (1) greater retail influence is associated with slotting fees, (2) these fees are related to changes in the relative influence of manufacturers and retailers, and (3) larger and arguably more powerful retailers are more likely to require and benefit from slotting fees.

Regarding the association of slotting fees with retail influence, of nine factors suggested to have contributed to slotting fees, manufacturers (4.11) identify "greater retail influence" first. Retailers (3.37) agree that this factor is important but rank it lower (fifth). Manufacturers (4.35) and retailers (3.81) agree, however, that "compared with five years ago ... retailers are much more likely to require slotting fees." Thus, although manufacturers and retailers differ as to the relative contribution of greater retail influence, they both agree that this influence is a factor and that retailers are more likely to require these slotting fees than they were five years ago.

In an attempt to understand the nature of influence thought to extend from slotting fees, opinions were sought as to the effect of slotting fees on channel merchandising decisions. The results suggest that manufacturers (+.94) and retailers (+.59) agree that "retailers' influence over product merchandising decisions" has increased as a result of slotting fees. For slotting fees' effect on "manufacturers' influence over product merchandising decisions" due to some type of quid pro quo arrangement, retailers (+.43) report a small increase, an opinion not shared by manufacturers (+.02;  $p = n.s.$ ).

If power is important in the application of slotting fees, one view is that larger retailers are more likely to require them and receive greater benefits through their use. Manufacturers (4.08) and retailers (4.19) agree that "large retailers are more likely to require slotting fees than small retailers," and smaller retailers agree even more strongly than their larger counterparts (4.56 versus 3.44). Asked the extent to which these fees contribute to the "profit levels of larger retailers" and the "profit levels of smaller retailers," manufacturers (+1.12 and +.32) and retailers (+.69 and +.18) observe some increase in the profits of both but a greater increase for larger retailers. Because large and small retailers may have a better understanding of their own circumstances, it is notable that larger retailers, though agreeing that larger firm profits are larger, do not agree as strongly as did the full retailer sample (+.42 versus the total sample mean of +.69). The smaller retailers' assessment of smaller retailer profits does not differ from the total retailer sample mean.

Together, these results suggest that manufacturers and retailers generally agree that the exercise of market power represents an important explanation for slotting fees. Various authors have advanced the idea that slotting fees result from increased retailer market power, though secondary-data results by Sullivan (1997) and anecdotal findings by Toto (1990) have not supported this view. Additional re-

search and analysis may be necessary to reconcile these contradictory findings.

*Channel relationships.* Manufacturers and retailers differ in their views of how slotting fees affect cooperation, information exchange, support, and decision making in their channel relationships. Manufacturers (3.89) agree that “slotting fees have damaged manufacturer–retailer cooperation,” whereas retailers (2.42) disagree. Regarding information exchange, manufacturers (3.03;  $p = n.s.$ ) are neutral, whereas retailers (2.08) disagree with the view that “slotting fees have decreased the flow of information between manufacturers and retailers.” For the contention that slotting fees have led to reductions in marketing support and consumer marketing activities by manufacturers because resources are shifted to pay these fees, manufacturers report a slight decrease (–.26) and retailers a slight increase (+.21) in “the amount of marketing support provided by manufacturers.” Finally, manufacturers (3.87) agree that “slotting fees have resulted in less consumer-directed marketing,” but retailers (2.50) disagree. Together, the results yield contradictory conclusions but suggest that manufacturers’ views are consistent with those of some industry observers (see Dagnoli and Freeman 1988; Lucas 1996), whereas retailers’ views are not.

*Discrimination.* The results provide some support for the propositions that (1) not all manufacturers pay the same amount for their slotting fees, (2) some are able to negotiate lower fees, and (3) slotting fees have led to profit differences among large and small manufacturers, which possibly reflects discrimination. With respect to differential slotting fee payments, manufacturers (1.47) and retailers (1.69) strongly disagree that “all manufacturers pay the same amount of slotting fees per SKU per store.” As to the negotiated nature of these fees, retailers (3.25) agree, but not strongly, that “manufacturers are often able to negotiate lower slotting fees,” whereas manufacturers are neutral on this item (3.22;  $p = n.s.$ ). Manufacturers (3.22) and retailers (3.40) also agree that compared with five years ago, “slotting fees are more likely to be negotiated” now. Finally, in terms of the differential profit impact of varying payments across manufacturers, both manufacturers (–1.12) and retailers (–.54) believe slotting fees result in a decrease in “the profit levels of smaller manufacturers.” Manufacturers (–.23) and retailers (+.15) differ, though, in how “the profit levels of larger manufacturers” have been affected by these fees; manufacturers report a slight decrease, and retailers a slight increase. The larger manufacturers in this sample believe even more strongly than smaller manufacturers (–.40 versus –.02) that the profit levels of larger firms have declined because of slotting fees—the results reported by larger and smaller manufacturers are not statistically different in their assessment of smaller firms’ profits.

Together, these findings are in contrast to inferences reported by Sullivan (1997) and Toto (1990). The results suggest that managers generally believe that payment and receipt of slotting fees differ by the size of the parties. On the basis of differential payments, managers believe that the profits of smaller manufacturers have been affected more adversely than those of their larger counterparts. One conclusion is that manufacturers pay different amounts for their

slotting fees and that differential profit impacts across larger and smaller manufacturers occur. Although such results could be expected if smaller manufacturers are forced to pay proportionately more in slotting fees than are their larger rivals, extending this logic to suggest that illegal discrimination is occurring is difficult given the complicated laws that apply to price discrimination. Further research focusing on the circumstances under which these conditions occur and on whether illegal price discrimination is taking place is required.

*Competitive foreclosure.* Retailers and manufacturers differ in their views of whether slotting fees are used as a competitive strategy by more resourceful competitors to deny rivals access to shelf space. Regarding the impact of slotting fees as a mechanism of foreclosure, manufacturers (3.85) agree whereas retailers disagree (2.80) that “manufacturers have sought alternative channels for their products as a result of slotting fees.” Manufacturers (3.34) also agree and retailers (2.19) disagree that “slotting fees have caused manufacturers to exit our industry.” Finally, manufacturers agree (4.09) and retailers disagree (2.28) that “slotting fees prevent good products from getting to market.” Apparently, manufacturers and retailers view the use of slotting fees as a competitive strategy very differently.

With regard to the more intermediate implications of a foreclosure strategy, manufacturers and retailers tend to hold more consistent views. Manufacturers (–1.19 and –.45) report decreases in the “number” and “innovativeness of new product introductions by smaller manufacturers” as a result of slotting fees, whereas retailers reported a decline in the number (–.57) but not the innovativeness (–.10;  $p = n.s.$ ). However, both manufacturers (.25 and .32) and retailers (.39 and .41) report increases in the “number” and “innovativeness of new product introductions by larger manufacturers” due to slotting fees.<sup>8</sup>

Overall, the results provide mixed support for the outcomes suggested by the strategy of competitive foreclosure (MacAvoy 1997). Consistent with the predictions of this theory, manufacturers and retailers report a diminished number and innovativeness of product introductions and lower profits by smaller manufacturers as a result of slotting fees. In contrast, whereas manufacturers suggest that seeking alternative distribution channels has also been a result of slotting fees, retailers do not share this view. Because other factors may also contribute to these outcomes, further research is necessary for a better understanding of the role of slotting fees as a strategy of competitive foreclosure.

*Facilitating practice for increasing retail prices.* Finally, consistent with the view that slotting fees lessen aggressive retail competition and lead to higher prices (Shaffer 1991), both manufacturers (+.58) and retailers (+.25) report that these fees contribute to an increase in “the prices charged by retailers” (as reported previously). The results tend to support the assertions of the market power school—that slotting

<sup>8</sup>The differences reported here were consistent across retailers and manufacturers of different sizes. The results found no statistically significant ( $p < .01$ ) differences across respondents who reported being employed by manufacturers (or retailers) classified as “one of the biggest in the industry,” “a mid-size firm,” and “a smaller firm.”

fees result in higher retail prices—as opposed to those of the efficiency school, which proposes that the fees lower prices.

**Summary Overview and Discussion of Findings for Both Schools of Thought**

Figure 1 provides a summary overview of the empirical findings for both schools of thought, explicitly considering with which possibility theorems manufacturers and retailers tend to agree or disagree. The four-cell matrix provides a broadened perspective on the research and its findings for slotting fees. Using Figure 1 as an organizing framework, we review the content of the cells and suggest reasons for the observed agreement and disagreement across manufacturer and retailer respondents. Both substantive and methodological explanations are explored.

The lower right-hand cell in Figure 1 indicates that both manufacturer and retailer respondents, for the most part, do not agree with the theorems that suggest that slotting fees provide a signaling and screening mechanism for new products or that their practice facilitates the lowering of retail prices. Close inspection of the assumptions and logic underlying these theorems suggests several possible explanations. The signaling/screening theorem assumes that manufacturers have more knowledge about the likely success or failure of a new product. Several factors, however, suggest that this may not always be the case. From a theoretical perspective, modern channel thought envisions manufacturers and retailers sharing in the effort and success of a new product. Such a perspective is currently receiving increased emphasis through relationship marketing efforts and other channel partnering initiatives (e.g., ECR). These and other efforts suggest a movement toward information symmetry in these

channels. More practically, recent advancements in scanner data have provided retailers greater insight into consumer behavior previously unavailable. Retailers now often argue for more trade support from manufacturers on the basis of the claim that retailers have a better understanding of their customers because of this insight and can therefore market products better than the manufacturer can. One observation is that slotting fees have emerged during a period in which the distribution of knowledge regarding the likely success of new products is shifting and becoming more symmetric in the market channel.

The other unsupported theorem argues that slotting fees lower retail prices by unbundling the product transaction from the price paid for the shelf space. This view may also be based on questionable assumptions. This theorem assumes that the fee paid to a retailer will be applied toward the price of the product for which it is paid. Comments on our questionnaires indicate that this is a primary source of frustration for manufacturers—that retailers do not use the fees in support of the product for which it is paid. Because retailer profits have not increased since slotting fees emerged (Farris and Ailawadi 1992), it may be that retailers are passing these new revenues on to consumers by pricing other products more aggressively. Thus, the two theorems that were not supported by retailer or manufacturer managers may assume conditions that do not currently reflect practices in this channel.

The lower left-hand and upper right-hand cells in Figure 1 contain theorems that are generally agreed with by one of the two respondent groups but are not supported by the other. The differences in opinion represented in

**FIGURE 1**

**Overview of Findings**

		Manufacturers tend to ...	
		Agree	Disagree
Retailers tend to ...	Agree	<b>Efficiency</b> •Risk shifting •Demand/supply apportionment	<b>Market Power</b> •Exercise of retail market power •Discrimination •Facilitating practice for raising retail prices
	Disagree	<b>Efficiency</b> •Shelf space allocation	<b>Market Power</b> •Channel relationships •Competitive foreclosure
		<b>Efficiency</b> •Cost sharing	<b>Market Power</b>
		<b>Efficiency</b> •Signaling/screening •Facilitating practice for lowering retail prices	<b>Market Power</b>

these cells may reflect the underlying tension between manufacturers as payers and retailers as recipients of slotting fees. Respondents' written comments suggest that the subject remains highly emotional and the "fairness" of the practice depends on whether a respondent was a manufacturer paying the fees or a retailer collecting them.

Another potential explanation for these findings is the different channel positions represented by the two types of respondents. For example, retailers (as opposed to manufacturers) could be expected to have a better perspective on whether the amounts paid for slotting fees accurately reflect the costs of adding new products to their shelves (i.e., cost sharing). Retailers probably possess greater knowledge of the effects of slotting fees on their decisions to allocate shelf space to particular new products. Alternatively, manufacturers appear to have greater knowledge about whether they actually considered and sought alternative distribution channels for their new products because of slotting fees (i.e., competitive foreclosure). Each would appear to be uniquely positioned to assess the impact of slotting fees on its channel relationships and to be influenced in its assessment depending on whether it was a payor or payee of slotting fees.

Still another related explanation for the lack of agreement shown in these cells of Figure 1 could be self-interest on the part of the respondents. The managers may have thought that they could influence others to support their particular interests by giving answers that helped create survey results that supported a certain viewpoint. Retailers, for example, might have wanted the results to show that slotting fees fail to cover new product introduction costs in the hope of enabling themselves to raise those fees.

The upper left-hand cell in Figure 1 indicates that manufacturers and retailers are in agreement with respect to the logic of two of the efficiency school theorems (i.e., risk shifting and demand/supply apportionment) and three of those advanced by the market power school (i.e., exercise of retailer market power, discrimination, and facilitating practice for raising retail prices). Given this agreement, these five theorems appear to be most tenable to managers. Unlike those theorems with which both groups disagree, these five may accurately reflect managers' views of their world. Moreover, each of the theorems may reflect outcomes readily observable to both parties. For example, the ability to observe a shift in risk, apportionment of shelf space, the exercise of retailer power, discrimination, and the existence of higher retail prices may rely less on the relative channel position of a manufacturer or retailer and be easily observable to both.

## Implications and Conclusions

Overall, the findings of the research indicate that manufacturer and retailer grocery managers agree with several possibility theorems underlying both the efficiency and market power schools (see Figure 1). Managers jointly disagree with or hold views contrary to the other theorems. Although the literature and debate about slotting fees has tended to assume that retailers would support the efficiency-based theorems and manufacturers the market power-based theo-

rems, both responding groups were found to agree with theorems from each school. These findings, however, should not be interpreted to confirm or reject any one of the theorems. Rather, the exploratory nature of the research requires that they be viewed as yielding provocative insights and meaningful directions for further inquiry. Although a benefit of exploratory research is its ability to help prioritize future studies, in-depth research is required before definitive conclusions regarding slotting fees may be drawn.

The shared agreement of managers with theorems underlying both the efficiency and market power schools suggests that slotting fees may best be understood through a combination of theorems from each school. Indeed, a full explanation of slotting fees may require integrating the two schools of thought. Reconciling the distinct perspectives of the efficiency and market power schools, however, may require more than the simple integration of their theorems. One possibility is a contingency approach. For example, there may be characteristics of certain product-markets that make one school and its theorems more valid. In highly competitive product-markets, theorems that underlie the efficiency school may be more valid. Alternatively, in less competitive product-markets, the market power school and its theorems may have more validity. The current study does not specifically investigate this possibility.

Although managers tend to share agreement with several of the theorems, various issues remain. For example, although the findings suggest the association of retailer market power and slotting fees, debate continues to surround the issue of increasing retailer market power, the nature of this power, and its exercise through slotting fees. Each of these areas requires further inquiry. The study also suggests that the practice of slotting fees can result in discriminatory outcomes. Whether such outcomes violate the laws against price discrimination, however, remains an open question. The consensus results in the study regarding the direct impact of slotting fees on retail prices is of particular interest because of its potential implications. A fuller understanding of this linkage should be sought. Last, although the findings suggest that some risk of new products has shifted from retailers to manufacturers, the actual implication of this risk for efficiency is not addressed and is an issue for future study.

In the current study, we organized the various possibility theorems advanced in the literature to explain slotting fees and then gathered the views and opinions of practicing managers to understand these explanations better. In marketing, as in other disciplines (e.g., economics, law), competing possibility theorems commonly exist to explain phenomena of interest. These theorems are typically investigated individually through analytic or empirical methodologies to add to researchers' understanding. Prior research on slotting fees has, for the most part, proceeded along these lines. A particular contribution of the current research is its organization and empirical examination of the variety of possibility theorems proposed to explain slotting fees. Considerable debate centers on the merits of the two different schools of thought for these fees. The approach taken adds to the understanding of these schools and yields

the basis for appraising their relative merits through further research. The same approach might be usefully applied in other contexts in which competing perspectives and theories exist.

Although the findings and research approach for the study add to the knowledge about slotting fees and help clarify the debate over them, we acknowledge some limitations. In particular, the use of multiple single-item measures for examining each theorem, though carefully developed and necessary given the study objectives, restricts the ability to test for all forms of validity and reliability. Further research adopting the objective of examining each theorem in depth should develop more rigorous measures for the constructs examined. In addition, although an anonymous survey targeted toward informed industry participants with little non-response bias was used, manager perceptions, for a variety of reasons, may not accurately reflect reality and their opinions about slotting fees. Respondents may have had limited information and knowledge, or their perceptions may have been distorted by self-interest. Indeed, it is possible that some actions and motives related to slotting fees are unconscious and cannot be revealed through the type of study we conducted. Taking into consideration these potential limitations and others, we advocate additional studies of slotting fees that will elucidate their nature and implications for the marketplace.

### **Marketing Channel Management**

Slotting fees have quickly grown to be an important aspect of the relationship between many grocery manufacturers and retailers. Although the findings of the current research suggest that slotting fees are a source of conflict in these relationships, they also suggest potential avenues for conflict resolution. The pre-study interviews and the written comments of respondents support observations in the literature and trade press that the practice of slotting fees is controversial. Conflict over slotting fees jeopardizes the ability of manufacturers and retailers to realize the benefits of increased channel coordination that cooperative efforts such as the recent ECR initiative are intended to achieve. The goal of ECR is to enhance the efficiency of store assortment, replenishment, promotion, and introduction decisions through enhanced cooperation in the channel (Kurt Salmon Associates 1993). It has been estimated that full-scale implementation of ECR in the grocery industry could result in savings of more than \$40 billion. Other

industries have found that implementation of similar initiatives requires a high level of cooperation across the supply chain.

Although cooperation may be difficult to achieve in the face of conflict over slotting fees, there may be opportunity for détente. The relatively high degree of consensus among manufacturers and retailers toward various theorems underlying each school raises the possibility that shared sentiments could provide the basis for working together. Although some issues highlight the disagreement between manufacturers and retailers, such disagreement could be addressed through joint sponsorship of research and/or participation in conflict resolution. For example, joint sponsorship of research incorporating advancements in cost accounting (e.g., activity-based costing) could help detail the true costs of introducing new products (see Deloitte & Touche 1990), which would help manufacturers and retailers develop a common perspective on these costs. A more shared perspective on underlying costs may help the parties jointly develop initiatives for better managing such costs. Conflict could also be addressed through joint sponsorship of research on the effects of slotting fees on (1) manufacturer-retailer relations, (2) retailer assortments, (3) allocation of manufacturers' marketing budgets, (4) manufacturers' distribution decisions, and (5) the ability of goods to get to market—areas in which, according to our research, some disagreement exists. Interactions on these topics could provide each side an opportunity to understand the other's perspective better.

### **Public Policy Development**

Slotting fees have also become an important issue for policymakers, who have attempted to reconcile the fees' effects on competition. The support found for each school of thought suggests that slotting fees may both stimulate competition by improving distribution efficiency and damage competition by enhancing market power. Federal and state agencies and the courts face a considerable challenge in understanding and balancing these competing implications. Although some results in the current study could be interpreted to provide support for public policy restrictions on slotting fees, these results should not be treated as evidence of market failures or legal wrongdoing. Rather, the research should be viewed as a useful foundation for informing future public policy development.

## **APPENDIX**

### **Academic Contributions on Slotting Fees**

#### **Legal Analysis**

MacAvoy (1997)	Several antitrust causes of actions potentially apply to slotting allowances: conspiracy theories, monopolization and exclusionary conduct, discriminatory price and promotional concessions, and state law claims.
Aalberts and Judd (1991)	Various provisions (2d and 2f) of the Robinson-Patman Act against unlawful promotion and pricing discrimination may apply to slotting fees.
Cannon and Bloom (1991)	Slotting allowances may violate the Robinson-Patman Act, Section 2(d).





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