

Marketing Research and Public Policy: The Case of Slotting Fees

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Introduction: Marketing's "Hidden Worlds"

A recent article about the U.S. marketing system stressed that much of its operation occurs in millions of private "behind the scenes" business episodes and thus remains unperceived by anyone beyond the individual participants (Wilkie and Moore 1999). This can present special difficulties for policymakers and analysts in the public policy realm when the private, episodic nature of marketing activities hides vital information. When this occurs, a sole reliance on certain simplifying economic assumptions can be detrimental to enlightened policy determinations. Public policymakers should be aware that insights from the field of marketing can offer real value in these circumstances. This article focuses on the area of slotting allowances, which has presented an increasing array of challenges for public policy in recent years. This study reflects representative marketing efforts to uncover facts about its real world. It employs survey methodology with secondary data reports to provide a fuller picture of the current status of slotting allowances and implications for policy.

Public Policy's Interests in Slotting Fees

Originally started in packaged groceries, "slotting fees" referred to payments for obtaining a warehouse "slot" for a new product or for gaining access to retail shelves. Today slotting fees and allowances¹ have been broadened to describe *a family of marketing practices that involve payments and other incentives (e.g., free products or services) given by manufacturers to persuade downstream channel members to stock, display, and support their products* (Bloom, Gundlach, and Cannon 2000). The allocation decision stresses in this area are evident from even a cursory look at the statistics: Some 100,000 grocery products are

available for the market—with thousands more introduced each year—and a typical supermarket has space for only 40,000 products (Food Marketing Institute 2001a). Allocations for warehouse and shelf space must be made on some basis, and slotting fees have been suggested to represent a means to do this. Many forms of payments exist for handling these fees. Table 1 presents short definitions of five fees within this genre that are indicative of different dimensions of the product merchandising world. These fees have sparked considerable controversy among marketers, who are involved on both sides of these transactions—in receiving payments (wholesalers and retailers) and providing the payments (manufacturers and wholesalers). Slotting fees can be competitive tools to gain store exposure. This means that manufacturers' interests are often set against one another, while the size and nature of demands and offers of payment can set wholesalers' and retailers' interests against manufacturers' interests as well.

Public policymakers have long understood that this area is complex. The first rumblings of serious concern appeared more than 15 years ago (e.g., Freeman and Meyers 1987). Among the issues of concern are barriers to entry; competitive exclusion and foreclosure; discrimination; predation; stifling of innovation; reduction in variety; and, most recently, misleading accounting practices leading to misstated profits and ensue dislocations in stock prices, as with the Kmart bankruptcy (e.g., Hays 2002). In 1995, the Bureau of Alcohol, Tobacco, and Firearms held hearings and adopted regulations that banned slotting allowance practices in the retail sale of alcoholic beverages (Unfair Trade Practices Under the Federal Alcohol Administration Act 1995). Prior and during ensuing years, a number of other federal agencies looked into this area, including the U.S. Department of Agriculture, the General Accounting Office, the Internal Revenue Service, and the U.S. Senate's Committee on Small Business, which recently allocated funds for a formal investigation by the Federal Trade Commission (FTC). In 2001, the FTC held full-scale public hearings on slotting allowances. *Perhaps the most significant finding from this set of government activities was the consistent difficulty in uncovering information on the slotting phenomenon.* According to observers:

The FTC report calls for more research on slotting—substantial diversity of views and no consensus.... The number one recommendation was for further research.... Why is there so little information? Neither retailers nor manufacturers are eager to speak.... Divulging information can lead to competitive issues. (Blalock 2001, p. 10)

[In a 1997] *Supermarket Business* survey, 93% of retailers agree there is no way for a supplier to know whether it is paying the same fees other suppliers are paying. (Clark 2000)

¹Although frequently used interchangeably, slotting fees typically refer to up-front cash payments, whereas allowances reflect free or discounted orders for products (Cannon and Bloom 1991).

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Table 1. Slotting Allowances and Fees^a

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.

^aBloom, Gundlach, and Cannon (2000).

Table 2. Conceptual Framework and Research Questions Regarding Slotting Allowances and Fees

Forces Shaping Their Development	Current Practices and Trends	Insider Perspectives	Expansion to New Fields of Business
Slotting fees have come about as a result of •Growth in the number of new products introduced? •Greater retailer influence? •Lower retail margins? •Growth in private label brands? •Increasing use of push promotions by manufacturers? •Increasing costs of handling products? •Fewer truly new products? •High failure rate of new products? •Better ways for judging the success of new products?	How are slotting fees practiced? •What types of payments are involved in slotting fees? •How frequently are different types being used? •Do all suppliers pay the same amount? •How large are slotting fees? •Are slotting fees more likely to be required? •Are the amounts charged increasing or decreasing? •Are fees more likely to be negotiated? •Are fees more likely to be written into contracts?	What do channel members really think about slotting fees? •Are channel members positive or negative about slotting fees? •What are the common themes managers advance about slotting fees? •What are the business justifications for slotting fees? •Which aspects or types of fees are viewed as legitimate or illegitimate? •What do managers suggest be done in public policy?	Are slotting fees spreading into other industries? •If so, what industries? •What practices are being initiated? •What problems are being encountered? •Are the same forces contributing to the growth of fees in other industries?

The lack of information is generally attributed to the view that managers are reluctant to cooperate in providing information about slotting fees given the public policy uncertainty that surrounds their use and, in addition, the desire of these managers to maintain positive business relations with their channel partners. (Dyckman 2000)

From an FTC official: "If retailers and manufacturers were willing to be candid in a public fashion with us, this report could have been more conclusive." (Meadows 2001, p. 7)

The Purpose of This Paper

This article addresses the need for more information on slotting fees through reporting on the results of a national survey of practicing managers in the U.S. grocery industry as well as extensive analysis of secondary sources of information. Following a summary of survey findings, we delve further into key conclusions and implications for policymaking in this area.

Overview of the Research Study Issues and Analysis Plan

Table 2 summarizes the specific research questions for this report. Four basic areas are investigated: (1) marketing managers' assessments of causal forces behind slotting fees, (2) managers' reports on current slotting practices, (3) man-

agers' personal reactions to the practice, and (4) expansion of slotting into other fields. Answers in these areas should be quite helpful in addressing the information deficit facing public policymakers in this area.

The present analysis was planned in two parts. First, a set of specific analyses was conducted on national survey data collected by Bloom, Gundlach, and Cannon (2000). The survey covered experienced managers in the grocery industry (the present article focuses on previously unreported responses from the data set, thus minimal overlap exists with the earlier article²). Second, to offer the most comprehensive picture possible of the present situation with respect to slotting fees, an extensive analysis of secondary sources of research was also conducted to update and supplement certain survey results.

Survey Methodology³

Following a series of in-depth interviews with executives from industries that practiced slotting fees (i.e., consumer packaged goods, pharmaceuticals, musical recordings, and

²Specifically, a few questions are carried over from Bloom, Gundlach, and Cannon (2000), and though the same interpretation applies to the results, we are using these responses to address different questions.

³An abbreviated description of the survey methodology is reported here. A fuller description can be found in Bloom, Gundlach, and Cannon (2000).

books), it was decided to focus on the grocery industry, in which slotting fees are common. Informants from three channel levels were deemed relevant in the grocery industry—manufacturers, wholesalers, and retailers. Because the strategic and financial impact of slotting fees is high, knowledge of the practice is available at both operational and strategic levels of these firms. Accordingly, managers occupying a variety of positions, including retail procurement and merchandising, manufacturer marketing and sales management, and wholesale procurement and sales/marketing personnel, were contacted. Because slotting fees is a sensitive topic and many informants are unwilling to speak “on the record,” special attention to confidentiality and anonymity was needed. Finally, because managerial participation was crucial, close attention was given to sampling design, nonresponse bias testing, and fatigue through instrument design and measures. A short questionnaire (one folded-over legal-size sheet) and a cover letter highlighting university and Marketing Science Institute involvement were developed. Mailing lists purchased from *Supermarket News* (for grocery retailers and wholesalers) and Cahner’s Direct Marketing (for manufacturers under the category of “marketing personnel in the prepared foods industry”) composed the sample frame. A random sample drawn from each list led to an initial mailing of 2568 questionnaires (1210 to manufacturers, 1184 to retailers, and 174 to wholesalers). One week later, recipients were sent a reminder postcard. Three weeks after the initial mailing, a follow-up letter and second questionnaire were sent. Respondents were not tracked. The initial sample was reduced to 2458 after 110 mailings were returned as undelivered. A total of 802 completed questionnaires were returned for a 33% response rate (285 from retailers, 379 from manufacturers, and 91 from wholesalers). Nonresponse bias was assessed in several ways and deemed not to present problems for representativeness (see Bloom, Gundlach, and Cannon 2000). Because wholesaler respondents indicated they both paid and received slotting fees, this analysis focuses on retailers and manufacturers.

Findings: Forces Shaping Their Development

The Opposing Viewpoints of Manufacturers and Retailers

Respondents were asked to rate nine potential forces on their contribution to the use of slotting fees, on a scale ranging from 1 (“not a factor”) to 5 (“a major factor”). Panel A of Table 3 reports findings from retailers, and Panel B reports findings from manufacturers. Note that the rankings differ to a considerable extent.⁴ Retailers generally perceive actions by manufacturers as the primary drivers. Their top four forces are (1) “growth in the number of new products introduced,” (2) the “high failure rate of new products,” (3) “increasing costs of handling products,” and (4) the “increasing use of push strategies by manufacturers.” Conversely, manufacturers generally see a simpler picture, driven

by (1) “greater retailer influence” and (2) “growth in the number of new products introduced.”

The Essence of Participants’ Views

To identify the dimensions underlying each of these views, exploratory factor analyses were performed separately on the responses from retailers and manufacturers. For each group, the data correlated such that there are three factors contributing to the emergence of slotting fees, and each contributing force loaded significantly on only one factor. The results for retailers are shown on the right of Panel A of Table 3. The first factor is labeled “Retailer Activity,” as it includes forces that affect the profitability of the retailer: “greater retailer influence,” “lower retailer margins,” “growth in private label brands,” and “better ways for judging the success of new products.” The second factor is labeled “Supplier: Innovation,” as it includes “fewer truly new products” and “high failure rate of new products.” Finally, the third factor is labeled “Supplier: Influence,” reflecting “growth in the number of new products,” “increasing use of ‘push’ promotions by manufacturers,” and “increasing costs of handling products” by retailers.

Perceptions of manufacturers are shown in Panel B of Table 3. The major departure in perspectives is seen in the manufacturers’ first factor, which we label “Retailer: Influence” and simply includes “greater retailer influence.” That this contributing factor stands alone in the perceptions of manufacturers reflects the different views of the balance of power in the grocery industry. The second factor for manufacturers is labeled “Retailer: Profitability,” as it includes “lower retailer margins,” “growth in private label brands,” “better ways for judging the success of new products,” and manufacturers’ possible attempt at combating these forces through “increasing use of ‘push’ strategies.” The third factor is labeled “Supplier Actions,” as it includes four of the five contributing forces noted in the second and third retailer factors. The overlapping factors are “growth in the number of new products introduced,” “increasing costs of handling products,” “fewer truly new products,” and “high failure rate of new products.”

Specific Causal Forces and Pressure Points

Although there are many differences in perspectives, retailers and manufacturers tend to agree on which of the nine possible influences are major causal forces behind slotting fees. Three forces emerged with strong agreement from both sides, three with moderately strong support, and three with low scores as to their influence. Because some elements of antitrust theorizing have pertained to each of these possibilities, brief discussions of these findings should be informative for future deliberations.

Forces Failing to Reach Consensus

In our survey, three hypotheses failed to achieve support as direct causal forces driving slotting fees. These included “better ways for judging the success of new products,” “growth in private label brands,” and “lower retail margins.” With respect to “better ways for judging the success of new products,” this was intended to reflect developments in information technology, particularly in the retail sector. Advances in information technology, including check-out

⁴We used a criterion of a mean greater than 3.5 as a basis for identifying the strongest causal forces.

Table 3. Forces Contributing to Slotting Allowances and Fees

A: Retailers' Perceptions					
Slotting fees have come about as a result of	Rating ^a		Factors and Loadings		
	Rank	Mean	Retailer Activity	Supplier: Innovation	Supplier: Influence
Growth in number of new products introduced	1	4.2			.774
High failure rate of new products	2	3.9		.709	
Increasing costs of handling products	3	3.9			.554
Increasing use of push promotions by manufacturers	4	3.6			.529
Greater retailer influence	5	3.4	.559		
Fewer truly new products	6	3.2		.813	
Lower retail margins	7	3.0	.679		
Growth in private label brands	8	2.9	.746		
Better ways for judging the success of new products	9	2.7	.598		
B: Manufacturers' Perceptions					
Slotting fees have come about as a result of	Rating ^a		Factors and Loadings		
	Rank	Mean	Retailer: Influence	Retailer: Profitability	Supplier: Actions
Greater retailer influence	1	4.1	.887		
Growth in the number of new products introduced	2	3.8			.587
High failure rate of new products	3	3.3			.814
Increasing use of push promotions by manufacturers	4	3.1		.492	
Lower retail margins	5	2.8		.704	
Increasing costs of handling products	6	2.8			.608
Fewer truly new products	7	2.8			.670
Growth in private label brands	8	2.7		.741	
Better ways for judging the success of new products	9	2.2		.480	

^aScale from 1 "not a factor" to 5 "major factor."

scanning, direct product profit information programs, and computer-assisted shelf-space planning, enable retailers to obtain more accurate and timely sales and profitability information for judging the performance of products in their stores. These technologies are believed to have motivated slotting fees because retailers are able to more precisely assess and assign costs associated with new products (FTC 2001). However, the sample of managers did not support this explanation.

A similar result emerged for the competitive pressures captured by private labels and lower retail margins. In regards to "growth in private label brands," store brands are well-known as a dominant force in the grocery products industry, accounting for a growing share of products on retailers' shelves and providing higher profit margins (e.g., Borghesani, de la Cruz, and Berry 1999). Some observers contend that slotting fees have developed as a mechanism for directly compensating retailers for profits lost through giving up shelf space to national brands that could be held by their higher margin private label brands (e.g., MacAvoy 2000, Wellman 2001). However, the retailers and manufac-

turers in our survey did not perceive this as a significant force.

Another potential explanation failing to find general support was "lower retail margins." Profit margins at grocery stores hover at only 1% to 2% of sales (Aalberts and Jennings 1999, p. 208). Furthermore, some observers have reported that lower profit margins arising from heightened competition by other retail formats have motivated retailers to seek ways to become more profitable, including revenue increases from slotting fees (e.g., Aalberts and Jennings 1999; Friend 1998; White, Troy, and Gerlich 2000). Although disputed by some retailers, observers contend that slotting fees can represent 20%–50% of the profits of some chains (Gay 2001; Jenkins 1999; Lee 2000, p. 578) and that these fees have become profit centers (Partch 1999). Some observers have suggested that most retail businesses make their money when they sell their products, but supermarkets make their money when they buy their products. However accurate these profit figures may be, our sample of managers did not rate this as a causal force for the development of slotting fees.

Moderate Forces for Slotting Fees

Three further influences achieved mean agreement scores at or slightly above the midpoint of the scale. First, many grocery product categories are in the mature stage of their product life cycle, offering line or brand extensions is now an accepted strategy, and classically innovative or truly new products compose a much smaller number of new product introductions (Johnson 1988; Motley 1999). Thus, the definition of “new product” is a concern in this area. The Grocery Manufacturers Association found that there are only some 1200 true new products each year, rather than the 16,000 cited previously: Here only equity transfer, line extension, and classically innovative products were considered true new products (Schmidt 1999). Consequently, some industry analysts have pointed to the *lack of novelty associated with most new products* as contributing to slotting fees to compensate retailers for opportunity costs associated with introducing uninspired new products to the marketplace (Friedman 1990). Other analysts suggest that slotting fees were created to discourage me-too items (Friend 1998). Our survey offers some split support for this speculation: Manufacturers rated “fewer truly new products” as only moderately important (2.8) and seventh overall, whereas retailers rated this factor higher (3.2), but sixth overall. Moderate support for this finding is also found elsewhere in the survey, in which managers were asked to indicate the impact slotting fees have had on the variety of new products available to consumers. The scale for their responses was from -2 (“large decrease”) to 0 (“no effect”) to +2 (“large increase”). Again a split was found, but also around the midpoint—the average response from manufacturers was -.7 and from retailers +.3, with an overall average of -.2 (Bloom, Gundlach, and Cannon 2000).

The second causal force involves retailers’ *costs of handling products*.⁵ Retailers contend that costs of adding a product are high and increasing. One estimate is that it costs a retailer almost \$1 million a year to introduce new products, including the costs of warehousing, transporting, stocking, altering scan files, merchandising for new products, and deleting old ones (Motley 1999; but see also Merli 2000, contending that technology-related costs have diminished over time). Slotting fees were created to compel manufacturers to bear some of these costs (Friend 1998). The survey results showed retailers reporting that “increasing costs of handling products” is a real factor related to slotting fees (3.9 rating), but manufacturers (2.8) slightly disagreed. Thus, there is either a clear asymmetry of information available or a fundamental disagreement on apportioning costs within the channels.

The third force receiving a moderate level of average support involves the *increasing use of “push” promotions by manufacturers*, providing incentives directly to the retail trade to create demand for a product (Johnson 1988; Thompson 2000). There is little question that money has increasingly shifted out of advertising budgets over time to

build up trade promotion budgets (Jenkins 1999). For example, in 1968 manufacturers spent 28% of their advertising and promotion dollars on trade promotions (MacAvoy 2000). By 2001, trade spending accounted for 61% of the typical consumer packaged goods marketing budget (*Frozen Food Age* 2001). It is conjectured that push strategies have increased because of a continuing preoccupation with short-term sales growth, increasing costs and questioned effectiveness of traditional pull strategies (e.g., mass advertising), diminishing consumer loyalty for branded products, and a lack of differentiation among new products. The survey results showed that retailers reported a 3.6 rating for “increasing use of ‘push’ strategies by manufacturers,” which reflects that manufacturers are stimulating slotting fees through the offer of these funds. Conversely, manufacturer respondents, with a 3.1 rating, reflected a more defensive posture consistent with the position that retailer demands are driving this phenomenon.

Key Causal Force 1: “New Product Proliferation”

The survey results provide strong support for “growth in the number of new products introduced” as a key force contributing to the development of slotting fees. Manufacturers rate this factor high (3.8), second only to “greater retail influence,” and retailers (4.2) rate this factor even higher, and first in their assessment. New food product introductions grew 450%, from a reported 2000 in 1975 to more than 9000 in 2000. Including nonfood items, the total new products introduced to the grocery trade was estimated to be more than 16,000 in 2000. However, recent reports suggest that new product introductions are slowing down or may be declining (Food Marketing Institute 2001b; *Sales and Marketing Management* 1989). As noted previously, the average grocery store holds approximately 40,000 items (Food Marketing Institute 2001a), thus an annual increase of 16,000 possible items places serious strain on allocation decisions. Slotting fees have been suggested to represent a feasible basis for assisting allocation decisions (for the retailer, any change in a stockkeeping unit [SKU] is considered a new product [Partch 1999]).

Key Causal Force 2: “New Product Failures”

The survey results also provide strong support for “high failure rate of new products” as an important factor contributing to the use of slotting fees. Manufacturers (3.3) report this to be an important factor and third overall, and retailers (3.9) also report this as an important factor and second overall. Although data in this area are imprecise, it is clear that new product failure is not unusual in the grocery industry. Failure rates are estimated to range from 50% (Sachdev 2001) to 80% (Rao and Mahi 2000; Shapiro 1990; White, Troy, and Gerlich 2000) to as high as 90% (Donahue 1989). In contrast, using a restrictive definition of new product, the Prime Consulting Group arrived at a 25% failure rate. This study also found that by the thirty-ninth week after being introduced, 42% of new products had declining sales (MacAvoy 2000). Studies using Information Resources Inc. scanner data further show that on average, 50% of products fail as a result of insufficient market support, failure to meet customer expectations, and a lack of distinguishing features

⁵Note that the survey item did not stipulate “new” products only, thus it may have been subject to differing interpretations.

(Sachdev 2001). Relevant to slotting fees, high failure rates bring additional costs to retailers, which can partially or entirely be made up through additional charges to manufacturers. According to a study of 1995 introductions by Linton, Matysiak, and Wilkes, food retailers spent an average of \$965,800 per store on new products that failed (Food Marketing Institute 2001a).

Key Causal Force 3: "Increasing Retailer Power"

Greater retail influence mainly due to increased consolidation at the retail level has been a frequently cited factor for explaining slotting fees (Carstensen 2000) and also emerged as such in this survey. As noted previously, different perceptions were reflected for the effect of "greater retail influence" on slotting fees (retailers [3.4] rating it as fifth in importance, but manufacturers [4.1] identifying it as first among all the forces). Overall, however, both parties clearly identified it as a key contributing influence on slotting fees, and this carries some considerable implications for public policy. Primarily as a result of mergers, concentration is argued to provide larger retailers with greater bargaining influence over their suppliers, and slotting fees are identified as a mechanism through which this influence is exercised (Ailawadi 2001; Dimitri 2001; White, Troy, and Gerlich 2000). As one observer explains, "procurement takes place one division at a time in Kroger's 12 divisions. They buy independently. They may occasionally buy for all stores. Food manufacturers tend to sell their products metro area by metro area. Manufacturers recognize that ... they must be on the shelves of leading retailers.... The higher the level of concentration, ... all things being equal, the stronger the buying position of the leading supermarket firms" (Marion 1998, p. 89). Consolidation in grocery retailing has been a powerful trend in recent years. At the national level, the top five supermarket chains accounted for 20% of U.S. grocery sales in 1993, but 42% of sales seven years later (Swenson 2000). Some observers predict the near term emergence of four or five chains with more than 60% of all U.S. supermarket sales (Foer 2000). Moreover, statistics pertaining to local market areas, in which different sets of retailers compete and small suppliers require access, are even more relevant, as concentration in regional markets can be even higher. For example, the four firm concentration is more than 66% in Boston–Worcester–Lawrence, 73% in Hartford, and 90% in Buffalo–Niagara Falls (Foer 1999). Overall, studying the 100 largest cities defined by Metropolitan Statistical Area (population center of 50,000 or more, with adjacent counties), four firm concentration averaged 72% in 1998 (Kaufman 2000). On the supplier side, many food categories are also heavily concentrated. For example, in 1992 the leading four firms accounted for 85% of breakfast cereal sales, 75% of chocolate and cocoa product sales, 66% of roasted coffee product sales, and 56% of cookie and cracker product sales (Kaufman 2000).

Findings: Current Practices and Trends

What Types of Payments Are Involved in Slotting Fees?

Although originally defined as payments to obtain a "slot" in a wholesaler's warehouse for the supplier's products, the

use of the terms "slotting allowance" or "slotting fee" has expanded across time. This expansion has led to varying interpretations and some confusion (Gundlach 2000). "Slotting" is often used as a catchall term for a diverse number of fees paid by manufacturers (Skitol 1999; *Supermarket News* 2001; Tom 1999). To assess relative usage, we asked the survey respondents to indicate, on a five-point scale ranging from "never" to "all the time," their opinion of how often five types of fees are paid by manufacturers to the trade in their industry. There was general agreement of a high level of use for "display" fees (3.3) and an even higher use for "slotting" fees (3.7). However, respondents did not observe extensive payment of "pay-to-stay" fees (2.0), "failure" fees (1.6), or "presentation" fees (1.3).

The five types of fees included in the survey represent only a portion of the expanding domain of payment purposes and titles. The current complexity is more obvious when the National Food Distributors Association identifies lump sum payments for new product introductions, "street money" for an end-of-aisle display, "shelf fees" or ongoing payments for favorable shelf location, and "facing allowances" to increase the amount of shelf space (*Milling and Baking News* 1998). Other terms in this genre include "hello money," "table allowance," "push money," "listing allowance," "promotion allowance," "kill fee," "appointment fees," "commerce fees," "retail capital improvement fees," "computer/technology related fees," "off-invoice" demands, "interview fees," "category management fees," and "warehouse construction" or "new store opening" fees (Aalberts and Jennings 1999; Fields and Fulmer 2000; Moore 2000; *Supermarket News* 2001).

What Trends Appear for Slotting Fees?

The survey also posed a series of questions to better appreciate trends and practices in this area. First, are slotting fees spreading, and are they increasing in dollar amounts? Respondents were asked (on a five-point scale from 1 "strongly disagree" to 5 "strongly agree"): "Compared to five years ago, retailers are much more likely to require 'slotting fees'." The sample's overall average of 4.1 indicates strong agreement. Respondents then used the same five-point scale for the statement, "Compared to five years ago, the slotting fee that retailers charge per store for new SKUs is higher." Manufacturers reported strong agreement at 4.3, and retailers registered more moderate but clear agreement as well (3.4). These findings comport with the ACNielsen (2000) Annual Survey of Trade Promotion Practices, which showed that 85% of retailers reported charging slotting fees. Moreover, 42% of manufacturers reported that they were charged increased slotting allowances, whereas 28% of retailers reported having increased their slotting fees.

Respondents were then asked a series of questions about the practices themselves. Results here were mixed. The survey provided only limited evidence that slotting fees are being increasingly negotiated (3.3 on the five-point agreement scale) with the item "Slotting fees are more likely to be negotiated (compared to five years ago)." Furthermore, only slight agreement was observed (3.2) with the item "Manufacturers are often able to negotiate lower slotting fees." However, strong disagreement (1.6) was registered with the

statement, “All manufacturers pay the same amount of slotting fees per SKU, per store.” Thus, not all manufacturers pay the same amount for their fees. Some reasons could stem from category variations such as differences in cost for shelf space (e.g., freezer cases), demand for shelf space, the number of new products by category, differential risks of product failure, and the prospect of different levels of power. These results support the view that slotting allowances are most often discussed privately, verbally agreed to, and rarely incorporated into contracts. Regarding documentation, our respondents slightly disagreed (2.9) with the statement, “Slotting fees are more likely to be explicitly written into contracts (compared to five years ago).” Thus, it is not surprising that information pertaining to the amounts actually paid for these fees has been difficult to pinpoint.

As noted previously, high variation is likely the rule. A recent governmental report suggests that slotting fees on a store basis range from \$75 to \$300 per SKU (FTC 2001, p. 11). Other estimates also reflect high variation. On a regional or store basis, reported ranges for the fees include \$10,000–\$30,000 (Fields and Fulmer 2000) and \$3,000–\$40,000 (Desiraju 2001). Aggregating further, estimates for obtaining national distribution are reported to approach \$1.4–\$2 million per SKU (Thompson 2000; Vosburgh 2001), whereas another commentator estimates as much as \$16.8 million to introduce a small product line of four items in all supermarkets nationwide (FTC 2001). Viewed differently, Cannondale Associates reports that approximately 11% of trade dollars are spent on slotting fees and other new item fees (*Frozen Food Age* 2000), whereas estimates based on return on investment report that slotting fees for some manufacturers require, on average, 16 years to obtain a profitable return (Stevens 2001). However, high variability does seem to exist: More than one-third of respondents in a recent ACNielsen survey indicated that they paid less than \$500,000 in slotting fees for their latest national product introduction (*Milling and Baking News* 1998).

Findings: Insider Perspectives

The reports to this point have not fully captured either some nuances or the levels of intensity that emerged in the survey. Specifically, in addition to the structured items, the questionnaire concluded with some white space and an optional invitation for the respondents to write down any further comments they may wish to make. *Nearly 350 managers chose to do so—composing 42% of respondents.* Their open-ended comments ranged widely and were quite instructive. It became clear that the lack of public information is far from a sign of unimportance or disinterest in the real world of channel managers. To the contrary, there were strong positions, lucid explanations, and occasional outbursts of emotion.

Table 4 presents an illustrative selection of these managerial statements and is meant to provide a richer view of the range of marketplace reality of slotting as seen through the eyes of daily participants. It is composed of three sections: one for retailers, then wholesalers, and then manufacturers. Note that the retail managers are generally the most accepting of slotting fees, whereas respondents from the marketing functions of manufacturers are generally the most

critical. Power is an important issue and relates to firm size, thus the firm size (small, medium, or large) associated with each manager’s comments is noted.⁶ It is apparent, however, that the topic is multifaceted—issues such as operational facts and needs, inequity, legitimacy and illegitimacy, conflict, competition, costs, cooperation, uncertainty, anger, and even fear all crop up in the observations. Also, relevant to the overall article are both legal and public policy dimensions appearing in some of the statements. In the ambit of law and politics, narratives can offer a useful means for understanding passions and nuance.

Findings: Expansion to New Fields of Business

The survey clearly indicates an increase in slotting over the past decade in supermarkets. Moreover, beyond the survey, considerable evidence suggests that the slotting allowance phenomenon has been spreading into many new areas. Table 5 reports on some of these, reflecting the richness of this topic.

Discussion and Implications

We began by noting the “hidden worlds of marketing” and the difficulties this can present for policymakers in the antitrust area, including continued frustration uncovering information on the elusive slotting phenomenon. In answering these calls for more information, the findings cross four areas of inquiry: (1) forces stimulating the growth of these fees; (2) their current practice and trends; (3) sentiments of a national sample of managers, as expressed through quoted narratives; and (4) spread of the slotting fee phenomenon into new marketing domains. We hope that this research will be useful to policymakers in their efforts to develop empirically based public policy; to marketing managers in developing policies for decision making in this area; and to scholars in marketing, law, and economics for undertaking new research initiatives. In this regard, several key implications extend from the findings.

Public Policy on Slotting Must Be Multifaceted

Although divergent viewpoints were identified for some, the survey respondents clearly identified three key causal forces that drive the development of slotting fees. It is of significant policy relevance that these have *multiple origins*. “New product proliferation” has its origins with manufacturers, “greater retailer influence” springs directly from retailers, and “new product failures” has been suggested to be the result of both manufacturers insufficiently researching and testing their products and the lack of retailer support in some cases. The important implication is that a multifaceted solution to the public policy issues will be necessary and will likely require the cooperation of all members of the trade. It will not be feasible for public policy to pursue a singular theory in isolation.

⁶Respondents indicated whether their firm was “one of the biggest firms,” “a mid-size firm,” or “a smaller firm,” relative to the other companies in their industry.

Table 4. Selected Survey Statements on Slotting

I. Illustrative Views of Retailers:	
Manufacturers have been paying large slotting fees to retailers in the Northeast and not in other areas. We have a set fee. We also tell the manufacturers that if an officer of their company states in a letter to an officer of our company that they do not pay slotting fees then we will not charge. Only one company has sent the letter, _____. Slotting fees have been an inducement to retailers to take items [that are] unwanted. (Large Ret.)	I work for a family owned independent grocery retailer that is supplied by an associate warehouse. We do not charge slotting fees. However, we do incur "start up" costs and maintenance costs for new items (slotting labor, tags, signs, etc.) We also are not compensated for failed items that we mark down to sell out. I have mixed emotions about slotting fees, and although there are legitimate cost considerations, some fees end up as profit centers, adding more cost to the distribution system. (Small Ret.)
[T]he people commanding these fees are not the retailers, they are the wholesalers or chain stores with their own distribution system. Retailers very seldom get this money (slotting fees) we get maybe a free case of product; which is nothing compared to \$3000-\$6000 an item wholesalers and chain stores are getting. (Med. Ret.)	Slotting fees are a product of the manufacturing end of the business trying to build market share by introducing more items than could possibly sell. These fees are a retailer insurance program, [but] not a very good one. (Large Ret.)
Our firm doesn't charge slotting fees.... However, often manufacturers will come in with a cash incentive to entice us to carry their products. [Slotting fees are] most prevalent at the grocery wholesaler, not the retailer. (Med. Ret.)	Slotting fees are used to recoup the costs [of] setting up new items—shelf tags, warehouse slots, new planograms, reduction ... items being discontinued to accommodate new products, etc. It is not used to buy our patronage! (Large Ret.)
II. Illustrative Views of Wholesalers:	
As a 21 store chain of warehouse type and conventional stores, I see slotting fees as an inexpensive way to gain distribution. Our request is "one free case per store" which gets suppliers immediate distribution. With their sales forces being cut back so much, I feel this is a bargain for them. It's the wholesalers that charge too much. (Small Ret.)	[There is] a large inconsistency between regions and customers. Many feel ... "If I don't negotiate for slotting, it will go to my competitor." Slotting and deletions of non-performers need to be addressed for health of the wholesale and conventional retail industry. (Large Whs.)
Slotting fees are required on the wholesale end ... and many times never reach the retailer at all. Most slotting fees on the retail end are done with DSD vendors; and normally they offer a free case.... Very seldom is money offered. (Small Ret.)	Slotting fees ... make the big companies more profitable ... small companies ... often can't get them. (Small Whs.)
Slotting fees are mostly a nonissue. (Med. Ret.)	In my opinion slotting fees have no place in our industry and should be outlawed. (Med. Whs.)
The bigger chains have created [slotting].... They have the strength to command the fees they want for new products ... we get slotting on certain items, but we are still for an introductory allowance [equal for] everybody. (Small Ret.)	Slotting fees are the most contemptible approach to a free market society. [They] are only an extension of the guaranteed sale.... It is a wonder we don't have more manufacturers going out of business. Something needs to be done. (At this point Government intervention is needed, as much as I would rather keep the government out.) (Med. Whs.)
Until there are strict laws ... the big retailers will get much more because of their power. I would like to see it equal for all supermarkets but that'll never happen because vendors will just give it a different name to hide it. (Small Ret.)	[T]he most abused thing in our industry. We need to get back to making our profits by selling instead of buying, [but as long as they're] willing to offer the fees, we'll ask for them. (Med. Whs.)
[M]ostly paid to large retailers. Small retailers only get what's left over ... we'd prefer slotting fees stop. (Small Ret.)	Slotting fees are just another way grocers add to their profitability. It skews new product and like product introduction away from the little manufacturer. (Small Whs.)
[Slotting fees are] detrimental to an efficient system. Our strategy is to avoid them ... whenever possible. (Large Ret.)	Not all slotting fees are cash. Product "free fills" make up a significant portion. DSD systems vs. warehouse system [have] different rules with regards to slotting. (Med. Whs.)
Would like to see slotting fees eliminated. (Large Ret.)	Slotting fees are wrong ... help the larger companies grow larger. Fees for shelf space are up to \$2,000/ft. [Small firms can't afford this, so] larger companies willingly pay for their space. New, good items are kept [out].... New companies are extremely restricted in what they can manufacture. (Small Whs.)
Slotting fees should not be a method for retailers to make profits ... slotting fees should be used to reduce the retailer's financial risk for failure and to help promote the new item in its early stages. However, as a retailer, we are very concerned as to whether we are obtaining our "fair" share of slotting fees if it is indeed available. (Med. Ret.)	Slotting fees help wholesalers and retailers to "weed-out" products that the manufacturers are not too sure of. The slotting fee does not begin to cover the costs of introducing new products. Profit margins at the wholesale and retail level are very thin. The big dollars are being made by the manufacturers. (Small Whs.)
[A] part of doing business. If you do not collect them you are at a competitive disadvantage. (Med. Ret.)	When a product fails many small manufacturers are not around to clean up the residue, which is then discounted to salvage dealers/auctioneers, etc. (Large Whs.)
Since most manufacturers pay slotting fees, we strive to get our fair share. However, a manufacturer's inability to pay slotting would not exclude his product from our stores. (Small Ret.)	Slotting fees are the result of no test markets. It is a charge for testing the item's sales potential for a manufacturer. The higher the risk of failure, the higher the charge. (Large Whs.)
With slotting fees increase the fun in daily routine has diminished. Investment brokers who "churn" accounts are viewed as criminals. Merchandisers and buyers are rewarded for "churning" products. It is sad. (Large Ret.)	A slotting fee [is one method] to screen new products ... [must] address product failure. How does the retailer get his money back if the product doesn't sell? They must charge more on the products that do sell! (Med. Whs.)
Slotting fees are legitimately used to cover retailer costs ... but [also as a] source of income for the retailer. Imagine a buyer with a "huge" procurement income looking at slotting fees as a way to meet that budget. Many new items are accepted in order to gain the fee income. Many small manufacturers struggle to survive if they cannot play. (Large Ret.)	

Table 4. Continued

The practice of requiring slotting fees has hindered many small manufactured products from entering the retail market. These fees are too expensive for smaller companies to pay.

(Small Whs.)

Large manufacturers with name brands pay in all different ways to keep their space and to get premium space at store level. The smaller manufacturer with little or no capital has to have something very unique and also give a super discount to get a product in.... Stores ask for the moon and stars and if they get it they will support that product.

(Small Whs.)

Slotting fees do not guarantee shelf space maintenance, product promotion, internal marketing information to the stores, or proper shelf position ... may also be beneficial in keeping unnecessary products from ... the consumer.

(Med. Whs.)

Slotting does not increase the chance of success—it does put the burden of failure on the manufacturer. Slotting can be used as a promotional tool by retailers.

(Large Whs.)

III. Illustrative Views of Manufacturers:

[S]hould be eliminated ... just another profit center for the retailer.

In my opinion, it is totally dishonest.

(Large Mfg.)

As a sales manager ... for 22 years ... “slotting fees” have become legalized extortion. Manufacturers view this as a cost of doing business. These marketing costs only take away more dollars....

“Robbing Peter to pay Paul” so to speak. In reality slotting fees are nothing more than a pure profit for the retailer.

(Med. Mfg.)

Most retailers (distributors) that I sell to use slotting fees to generate revenue to carry to bottom line and not to help promote and market the product, that it should be used for.

(Med. Mfg.)

Slotting fees have become profit centers for retailers. Some will authorize items, deduct the amount for slotting from a manufacturer’s bill, and then discontinue these same items two to three months later.

(Med. Mfg.)

Slotting fees are legalized extortion. Manufacturers are being held hostage by ... retailers. Between slotting fees, unearned discounts, reclamation fees, free goods, etc., the manufacturers represented on the shelves decreases daily. Whatever happened to offering a good product at a fair price, without a kickback.... It’s a sorry state of affairs.

(Med. Mfg.)

Slotting fees in general amount to nothing more than extortion.

(Small Mfg.)

Large retailers don’t care if the product is good, or if it sells. They only care about how much they can get to show upper management. After they get the slotting fee you might be out in 6 to 12 months. Where does the slotting fee show up on their book or stock reports? How do they report that “given money” to the IRS? I have had a retail chain just switch flavors of the same product ... so they can take ... another \$5,000 per SKU slotting fee, without our OK.!

(Small Mfg.)

Slotting fees are arbitrary and only related to what the ‘market will bear.’ This keeps many smaller manufactures out due to resource limitations. The fees are a profit center, and important one for retailers. A manufacturer has 90–120 days to make it at retail or they are dropped and another item and fee comes in its place. That can amount to three to four turns/year on one SKU. You’d think technology would lower costs but it sure isn’t reflected in ‘slotting fees.’

(Small Mfg.)

It’s obvious that I find slotting fees to be despicable. When entering a new market, showing success in other markets helps in negotiation but only to a limited extent. Retailers have few experienced buyers. They prefer to hire younger buyers (at lower salaries) and the manufacturer is now training the buyers about their category. When I started in this industry, buyers were train-

ing manufacturer sales people on how to make things happen!

(Small Mfg.)

Not only does the retailer charge slotting fees, but also deducts for fictitious ... totally contrived expenses from every invoice. Also, slotting is paid to place our line in all stores, [but] six months later you’re lucky to have all [them] in distribution.

(Med. Mfg.)

In essence you pay, you play. The manufacturer with the largest check “manages the category.” Slotting fees are in reality extortion for the privilege of serving a retailer’s store.

(Small Mfg.)

[Retailers] found they could get away with it, so they did it and continued to increase slotting. It is very difficult for small manufacturers with innovative ideas to now enter the market.

(Small Mfg.)

There is a lot of dishonesty in this business ... a “buried cost.” Food shows are the next biggest scam.

(Med. Mfg.)

The community of buyers has changed in the last ten years—they are younger and less experienced. The result is a “numbers” mentality which inhibits the introduction and growth of truly new and innovative products. Retailers seem to have lost sight of making money by selling products to consumers. The purchasing side of the business has become a profit center in itself. This is certainly reflected in lack of diligence and effort in actually getting product on the shelf to sell. There seems to be more concern at collecting money during the buying process.

(Small Mfg.)

Slotting fees are a big problem for the smaller manufacturer that has direct competition with large manufacturers. The larger companies can squeeze the amount of space that the smaller companies have to merchandise their products. In my opinion, this has antitrust implications.

(Small Mfg.)

Strongly disagree with slotting fees. Strongly disagree with the ethics of slotting fees. Leads to higher prices. Encourages predatory practice. Advantage to larger firms.

(Small Mfg.)

The meaning of slotting fees is extortion! This industry practice has severely limited the ability of smaller manufacturers to compete on a level playing field with larger manufacturers. A possible solution to this problem is consumer awareness—the average consumer has no idea that slotting fees have substantially increased their grocery bills. If they were made aware of this practice, ... they would be outraged enough to put pressure on retailers to end this foolishness.

(Small Mfg.)

As you can tell, I feel slotting fees are simply a way of “stealing money” from the manufacturer! I would prefer to put more money to use in advertising my product to consumers to introduce them to my products. Slotting fees are so high that we cannot recoup our dollars lost so we choose not to sell to certain customers based on their exorbitant fees.

(Large Mfg.)

The slotting fees [are] totally out of control! The money a manufacturer is required to pay out on a new product could be used towards ads and promos, demos etc. Because they are so high, smaller companies cannot pay ... and then your new product never reaches the consumer. I am highly against them. I feel it’s illegal, and should be stopped! There are [many] new products that never reach the shelf due to this, and has also put some companies in a money pinch.

(Med. Mfg.)

“Sheltered Income” is the phrase used in lieu of slotting fees in the food service industry. Both practices are WRONG, WRONG, WRONG! The consumer is the loser—the practice has been going on as long as I’ve been in the industry (30 years) and everyone is afraid to challenge the retail and food service distributor.

(Large Mfg.)

Table 4. Continued

Slotting fees are anti competitive graft used by large manufacturers and retailers to thin out competition for both brand recognition and shelf space. The sufferer is the consumer who pays more for less selection (Med. Mfg.)	for a giant and small industry and have seen small industry erode. (Small Mfg.)
Retailer's view: (1) Reduces risk for new products, (2) money for bottom line. But results from slotting: (1) less variety, quality from products; (2) higher retail prices, passed on from manufacturers; (3) elimination of smaller manufacturers from competition, [Overall a net] consumer loss!! (Small Mfg.)	Slotting is the planned and calculated tool used by large manufacturers and retailers to destroy all competitive markets and destroy the free market enterprise [system]! It is going to, and has, eliminated hundreds of thousands of jobs, competitive pricing, and the ability for consumers to make their own choices in what they eat, drink, and medicate themselves with. It is the single most destructive issue facing this economy and its people, and nobody, especially our government is going to do anything about it! (Med. Mfg.)
The small manufacturers in the food industry today have been hurt from distributing a good quality product and thus eliminating good competition with the popular brands due to slotting fees. I am against this and have been my entire food career. I worked	

Table 5. Illustrations of the Widespread Applications of Slotting Fees

Industry	Description of Practice
Supermarkets: International	International chains such as Ahold, Tesco, Carrefour, and Delvita can impose concessions including slotting fees, on manufacturers given their strong market positions (Gale Group Inc. 2001).
Tobacco placements	Of the \$8.24 billion spent by tobacco companies on U.S. advertising and promotion in 1999, \$3.5 billion, or 43%, went for promotional allowances, including slotting fees (<i>Ad Age's Daily World Wire</i> 2001).
Textiles	The textile industry at retail has had slotting fees for decades (Hogsett 2001).
Shoes and footwear	Retailers charge ... Foot Locker and Champs Sports pointed to as the leaders in this movement (Casidy 2001).
Automotive parts	A recent lawsuit was filed against nine retailers of the automotive aftermarket, including Advance Auto Parts, Pep Boys, Wal-Mart, and Sam's Club, alleging discrimination through the use of slotting fees (Willins 2000).
Music, magazine, and software sales	With extreme levels of new product proliferation, industries such as music, magazines, and software are also experiencing a rise in the use of slotting fees. For example, CompUSA was charging software publisher's slotting fees and instituting branded shelves in 1998 (Warren Publishing 1998; White, Troy, and Gerlich 2000).
Wireless telephones	Sprint PCS is charging slotting fees—from such marketers as Amazon.com, Yahoo, and Bloomberg—to place a clickable icon on a telephone's starting screen, comparable to what America Online and Yahoo are doing to their Web sites (Gross 2000).
Internet commerce	With respect to advertising, slotting fees recently accounted for 8% of total online advertising (<i>Electronic Information Report</i> 2001). Furthermore, several years ago Amazon.com promised to inform its customers when a publisher had paid for a prominent display on its Web site, following reports that by paying up to \$10,000, a book publisher could get a prominent display for a book on Amazon's home page and an author profile or interview. In addition, it was revealed that Amazon was also accepting payments for books to be placed in its "Destined for Greatness" section and its "What We're Reading" list (Italie 1999). In addition, online malls such as Fashionmall.com are charging slotting fees to manufacturers, retailers, magazines, and catalogs that advertise, display, and sell their products on these sites (<i>PR Newswire</i> 2001). Also, auction sites such as Priceline.com have begun to charge marketers slotting fees to participate in their bidding services (Cuneo 2000).
Airport gates	In the spirit of using slotting fees to allocate a fixed, valuable resource, some airports have recently been considering the implementation of "congestion pricing," in which increased fees will be charged to airlines for landing at peak travel hours (Alonso-Zaldivar 2001).

Further Attention to the Slotting Lexicon Is Needed

It is difficult to communicate directly about this topic, in part because the language employed is subject to varying

interpretations and usage. "Slotting" appears to have become a generic label for a variety of trade promotion related fees, but in the policy world, some of these practices may be problematic and others are not. Moreover, new types

of fees continue to proliferate, and category-specific labels may exist. Labels may be characterized differently depending on the channel member consulted—whether it is a manufacturer offering to pay or a retailer asking for payment.⁷ Furthermore, old labels may be replaced by new labels over time. For public policy purposes, a clear roster of terms and meanings should be developed, or alternatively it may be better to consider simply shifting emphasis away from slotting to the more general category of trade promotion. Trade promotion has been generally defined as payments and other incentives to obtain the patronage of retailers and encompasses a wide array of practices available to members of the trade (see Shaffer 1991).

Pressures on Policymakers Will Continue to Increase

Our findings indicate that these fees are increasingly being required, their magnitude is rising, and they are spreading to new venues. These findings are consistent across the results of the survey and recent published sources. Furthermore, some politically powerful constituencies have now entered the fray, calling for effective action. Given these trends, controversy over slotting fees is likely to continue to increase over time: This progression will likely result in even further pressure for public policy to effectively address these concerns.

The Balance of Channel Power Is a Key Issue

Of particular note in the findings is the role of influence and power. Greater influence on the part of retailers was identified by manufacturers as the strongest causal force stimulating slotting fees, whereas retailers reported the increasing use of push promotions by manufacturers as also an important force. Furthermore, both manufacturers and retailers agree that manufacturers sometimes do not pay the same amounts. This set of findings suggests that the nature of interdependence and symmetry of power found in the manufacturer and retailer trade relationship are important keys to understanding the public policy issues associated with slotting.⁸

The Concept of “Interdependence” Offers Policy Potential

To date, the public policy focus on slotting has followed two distinct paths. On the one hand, anecdotal reports and concern by some policymakers have focused on the possible abuse of these fees by powerful retailers. These retailers are

argued to add costs to the overall distribution system by charging suppliers absorbent fees that are not subsequently passed on to consumers in the form of lower prices or better services. On the other hand, other policymakers (and litigation) have emphasized the possible abuse of slotting fees by dominant manufacturers. These manufacturers are argued to be able to influence retailers to accept payment terms that ultimately disadvantage or exclude the manufacturers' rivals. However, the two paths have a common foundation in the concept of interdependence. Focusing on the nature of interdependence and balance of power in trade relationships can explain why some retailers could abuse these fees in relation to some upstream suppliers but not others. It may also explain how a manufacturer might influence some retailers to adopt exclusionary payment terms. Thus, depending on the direction, imbalance of power in the relationship is a root issue for public policy.

High Perceived Variation in Fees Paid Might Be a Problem Symptom

The findings of the current study, as well as the secondary sources we consulted, suggest that great variability exists in the dollar amounts of slotting fees and allowances. In addition to such objective explanations as differential retailer costs and risks depending on the product and brand, differential levels of channel interdependence and power may also provide a basis to explain such high variation. Depending on the level of interdependence and power, retailers may be able to negotiate higher payments from some manufacturers, and other manufacturers may be able to negotiate lower fees. Furthermore, some manufacturers may also find it in their interest to pay more depending on the nature of payment terms they are able to secure in their relationship with the retailer.

Public Policy Theorizing May Itself Be Unbalanced at This Point

Related to the previous discussion is the interesting observation that different levels of understanding and attention exist for the distinct paths of public policy inquiry into slotting fees. A close observation suggests that a greater level of understanding and attention currently exists for abuse of slotting on the part of dominant manufacturers than for assessing the public policy implications of dominant retailers abusing these fees. This could stem from the historical balance of power in distribution relationships that strongly favored major manufacturers and the development of antitrust policy that accordingly focused on the conduct of manufacturers. However, the increasing power of retailers and their ensuing behavior toward upstream manufacturers, though more recent, are legitimate concerns and need to be conceptually addressed with concomitant strength. Again, the findings from this study clearly point to the dual importance of each line of inquiry for sound public policy.

Future Pursuit of Marketer Narratives Is Worthwhile

A key contribution of the current study stems from the narratives obtained from the open-ended question contained in the survey. It is clear from the brief selection in Table 4 that

⁷For example, retailers may ask for or require payment of a “pay-to-stay” fee. Alternately, a manufacturer may provide payments to retailers to gain placement for a period of time in the form of a “display” payment or allowance. In each case, the outcome may be the same—the manufacturer secures placement for its products for a period of time.

⁸Dependence refers to a firm's need to maintain an exchange relationship to achieve desired goals and is considered the obverse of power. In exchange, a manufacturer is dependent to some degree on a retailer to achieve its sales and profit goals. Similarly, a retailer is dependent to some degree on a manufacturer for its sales and profit goals. The structure of this reciprocal dependence characterizes their interdependence and also the balance and magnitude of power in the relationship (see Gundlach and Cadotte 1994).

marketer narratives can provide further understanding of the rich complexity of this phenomenon, as well as the potent emotions and different views these fees engender and the breadth of issues that surround the practice of slotting. These narratives lend further credence to the importance of ensuring that public policy be based on a thorough empirical understanding of this phenomenon versus simple explanations based on only narrow assumptions from economics.

New Pressures Will Arise from Other Venues, Including the Internet

Finally, this study provided clearly documented understanding that the practice of slotting now has a wide breadth of application beyond the grocery industry. Anecdotes and public policy interest have centered on the grocery industry because of the widespread use of these fees and the acrimony they have created. However, as Table 5 shows, slotting fees are now found in a number of other industries and most recently as a part of the emerging commerce on the Internet. One need for future public policy for slotting fees is sensitivity to similarities and differences in these industries in relation to how slotting fees have developed, how they are practiced, and any specific issues that arise in each.

Future Research Directions

This has been an active policy area in recent years, and this experience should be factored into any plans for research in the future. As cataloged by Balto (2002), important developments have occurred. These developments range from activity by antitrust regulators (e.g., FTC Workshop) to important litigation involving these fees to activities by others outside of antitrust that impact the practice of slotting fees (e.g., the Financial Accounting Standards Board ruling that addresses certain accounting for practices including slotting fees). These developments portray a progression in public policy and point to the continued need for research on slotting fees in several directions:

- *Magnitude and variation of fees.* There is a clear and continued need, not only to document the magnitude of these fees but also to conceptually explain precisely how and why they vary across circumstances.
- *Public policy concerns.* Research is also needed to clarify further the nature of problems (or not) that may raise (or offset) public policy concerns. Some key areas currently identified include concerns for the creation of entry barriers for small business, inequitable differential payments across manufacturers, and the use of slotting payments by manufacturers as a basis for excluding their rivals. Derivative concerns include the effect of slotting fees on retail prices, innovation, and the quality of variety that is made available to consumers. Long-term concerns are also voiced, especially regarding the survival of small businesses.
- *Circumstances leading to abuse.* A fruitful area of inquiry is to identify circumstances that provide conditions for the abuse of slotting fees. One line of inquiry is the examination of interdependence and the balance of power. Natural field experiments that compare different levels of channel interdependence and power may provide a method for understanding this linkage.
- *Dominant retailers and slotting.* Further development is necessary on the distinct paths of public policy focus. In particular, enhanced inquiry and conceptualization are needed to understand, explain, and potentially control problems (if any) associ-

ated with dominant retailers that may possibly abuse slotting fees. We would speculate that power and dependence theory in marketing could usefully complement the extant theory in economics focusing on "monopsony." Furthermore, understanding from marketing as to information asymmetry could be brought to bear on the slotting phenomenon.

- *Category management.* Beyond dominant retailers, a parallel research emphasis could also be usefully given to studying manufacturer actions, such as the practices of category management and in particular "category captaincy." Category management is a distributor/supplier process of managing categories as strategic business units, which produces enhanced business results by focusing on delivering consumer value (Food Marketing Institute 2001c). This merchandising approach is practiced by an increasing number of retailers. Some retailers—by default, contract, or other means—turn over their category management to manufacturers that provide these services in their roles as category captains. Category captaincy itself has recently been the focus of inquiry by the FTC, as one concern is that some manufacturers may use slotting and category captaincy as complementary mechanisms for gaining influence over retailers and helping them exclude or disadvantage their rivals (FTC 2001). Payments, including those for slotting that are offered by manufacturers, represent a formal quid pro quo to gain influence, but when acting as category captain, a manufacturer may be gaining influence less overtly.
- *Beyond food products.* Finally, the spread of slotting fees to other industries and venues calls for broadened research beyond the marketing of food products (e.g., the pros and cons of airport gate slotting fees in Table 5). Research on these other industries will serve to bolster the development of sound public policy generalizable in content.

Conclusion

Slotting fees represent a particularly interesting aspect of the U.S. marketing system, but with much of the activity cloaked in the "behind the scenes" nature of marketing. Information about this practice has been difficult to obtain, inhibiting public policy development. Policymakers have now been forced to call for more information and research. Answering this call, the current research provides such information through a national survey and review of published sources. Further research is needed to develop appropriate public policy. In this respect, the current research is intended to represent a modest contribution to this end.

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