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

Paul N. Bloom, Gregory T. Gundlach, and Joseph P. Cannon

Retailers and wholesalers frequently require the payment of slotting allowances or fees before they will allocate shelf or warehouse space to a manufacturer's product. These fees have become prevalent in the grocery industry and are becoming more common in other industries (e.g., for books, CDs, over-the-counter drugs). Practitioners, academics, and public policy makers have vigorously debated the merits of these fees, and two schools of thought have emerged.

The "efficiency" school of thought stresses how the fees can enhance efficiency in distribution channels by:

- Providing a mechanism for manufacturers to signal product quality and for retailers to screen new product possibilities
- Allocating the costs and risks associated with new product introductions more equitably between manufacturers and retailers
- Helping retailers allocate shelf-space more effectively
- Offering shelf-space opportunities for valuable new products
- Facilitating lower retail prices

The "market power" school of thought argues that the fees damage competition and consumer welfare by:

- Allowing retailers to exercise market power
- Undermining channel relationships
- Providing a mechanism for price discrimination
- Foreclosing competitive opportunities for certain manufacturers and retailers
- Facilitating higher retail prices

Most research on slotting fees to this point has consisted of theoretical modeling work or legal analyses of the status of the fees under the antitrust laws. Very little empirical data has been used to help evaluate the merits of these two schools of thought.

Study and Findings

In this study, authors Bloom, Gundlach, and Cannon surveyed practitioners in the grocery industry to elicit their perceptions and opinions about slotting fees. Their findings provide support for various explanations related to both schools of thought.

For the efficiency school, both manufacturers and retailers tended to agree that slotting fees help to shift the risk of new product introductions back to manufacturers and to balance an oversupply of new products against consumer demand. Neither manufacturers nor retailers felt slotting fees served as a signaling or screening mechanism, nor did they see these fees as contributing to lower retail prices. Manufacturers and retailers disagreed, however, as to the cost-sharing and shelf-space allocation implications of slotting fees.

For the market power school, both manufacturers and retailers tended to associate slotting fees with the exercise of retailer market power, and felt that they were applied in a potentially discriminatory manner that favored larger manufacturers. They also viewed the fees as contributing to higher retail prices. Manufacturers tended to view slotting fees as a practice that undermined channel relationships and foreclosed competitive opportunities, while retailers did not.

Managerial and Public Policy Implications

Overall, the findings offer support for the managerial notion that slotting fees are a source of significant conflict in the grocery channel of distribution. This conflict may jeopardize the ability of firms in the supply chain to gain a competitive edge by implementing relationship-based practices such as the Efficient Consumer Response initiative. However, the consensus among manufacturers and retailers on many responses suggests that shared views about slotting fees may provide a basis for resolving differences.

In terms of public policy, results indicate that slotting fees are generally negotiated and applied differentially across manufacturers—possibly in violation of the Robinson-Patman Act. They also suggest that both large and small retailers are viewed as realizing higher prices and profits because of slotting fees, but that the benefits are much greater for larger retailers. Similarly, the profit levels of smaller manufacturers are reportedly harmed much more than the profit levels of larger manufacturers. Finally, the results suggest that slotting fees have been detrimental to the quantity and quality of innovation from smaller firms, but have had the opposite effect on their larger competitors.

Since these results draw on the opinions of members of the grocery industry, the authors encourage future research that would provide more rigorous causal analysis.

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Introduction

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

Table 1. Slotting Allowances and Fees

Type of Fees	Description
Presentation fees	Fees paid for the privilege of making a sales presentation
Slotting fees	Upfront 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

There are two schools of thought in regard to the practice of slotting fees. One sees them as a tool for improving distribution efficiency and stimulating competition, and the other sees them as a tool for enhancing market power and damaging competition. Retailers generally favor the former view; manufacturers, the latter. Proponents of slotting fees argue that they improve the efficiency of channel systems in several ways, including serving as a mechanism that manufacturers use to signal product quality and that retailers use to screen new products. These fees can also promote efficiency by leading to more productive cost and risk sharing between manufacturers and retailers, better shelf-space allocation decisions, and more effective apportionment of the supply and demand for new products. From this perspective, slotting fees ultimately help to enhance competition among highly efficient channel systems, lowering consumer prices in the process.

Opponents of slotting fees argue that they represent an abuse of power by large retailers. Critics claim that large retailers use the fees to gain a competitive advantage over smaller retail rivals, as well as to discriminate among suppliers in a way that favors larger manufacturers. Slotting fees thus damage channel relationships,

hurt competition among both retailers and manufacturers, and create less product variety and higher consumer prices.

The debate about slotting fees is similar to other prominent controversies in marketing and economics, such as the longstanding debate over the economic effects of advertising (Albion and Farris 1981). Both raise similar issues: (1) whether 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) whether large manufacturers obtain more support or benefits from retailers (or the advertising media) per promotional dollar spent than small manufacturers (Albion and Farris 1981), and (3) whether promotional expenditures can be used as a means of excluding competitors. The slotting fee debate is also part of a larger controversy surrounding the effects of various channel control initiatives (Stern and Eovaldi 1984): How are channel coordination and efficiency affected by tying agreements, exclusive dealing, exclusive territories, resale price maintenance, or *slotting fees* imposed by a powerful channel member?

As with these other controversial issues, resolution of the debate about slotting fees has important implications for both public policy and channel management. To date, slotting fees have proven to be a difficult issue for the Federal Trade Commission, Department of Justice, and many state attorneys general offices. These antitrust enforcement agencies have apparently given serious consideration to the possibility that slotting fees are illegal under the antitrust laws (cf. Kiley 1990; *Trade Regulation Reports* 1991; Antitrust and Trade Regulation Reports 1994; Redman 1995; McCabe 1996; Harps and Thayer 1997; Sackuvich 1998). So far, however, these agencies have taken no public enforcement actions, nor have any private antitrust suits produced a definitive court decision on slotting fees. One federal regulatory agency has taken a strong public stance against slotting fees: in 1995, the Bureau of Alcohol, Tobacco, and Firearms promulgated a rule that prohibits slotting fees in the marketing of alcoholic beverages (Gundlach and Bloom 1998).

At the same time, slotting fees continue to be a significant source of unresolved conflict among channel participants. Differing views toward these fees impede efforts to gain a competitive edge through implementation of relationship-based practices. Within the grocery channel, for example, attempts to implement strategies of Efficient Consumer Response (ECR) for increasing channel efficiency and effectiveness have been hampered by the acrimony over slotting fees.

This paper attempts to further inform the debate over slotting fees by taking an exploratory look at the phenomenon. Thus far, most academic work on slotting fees comprises (1) legal analyses of how various statutes might treat the practice, (2) other public-policy-related analyses, or (3) analytic modeling efforts that explore the potential effects of slotting fees under specific conditions and assumptions. The appendix summarizes these contributions. Notably missing from previous academic work, however, is empirical research.[1] To this end, our study provides new insights, drawing on the results of a large-scale survey of grocery industry managers involved in the practice of slotting fees.

We begin the paper by reviewing the two schools of thought, which we label the "efficiency" and "market power" schools. In doing so, we pose various research questions that address the underlying perspectives in the literature and inform each view. We then describe the research methodology we employed to explore these schools of thought from the perspective of practicing managers who pay and receive slotting fees. Next, we describe the results and their implications for practice and policy. Finally, we discuss the findings and suggest directions for future research.

Schools of Thought

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

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 concerning new products.	Do slotting fees help to communicate information concerning 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 to reallocate the risks of new product introductions to those best informed to control them.	Do slotting fees help to efficiently allocate new product risks? Have they lowered the risk for retailers? 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 to equate the supply of new products and their demand by consumers.	Do slotting fees serve to 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 to lower retail prices? Have prices decreased as a result of slotting fees?

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 impacted manufacturer marketing support? 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 function as a competitive mechanism, enabling larger and more resourceful competitors to foreclose smaller rivals from access to required inputs, e.g., 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 impacted the number of new products introduced and 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 increasing retail prices	Slotting fees provide a means for diminishing retail competition.	Do slotting fees serve to increase prices? Have prices increased as a result of slotting fees?

The Efficiency School

This school of thought claims that slotting fees enhance efficiency in distribution channels. These efficiencies are argued to be obtained in the context of new product introductions by having slotting fees serve as *screening* and *signaling* mechanisms. Efficiencies are also thought to develop through manufacturer-retailer relationships based upon *cost sharing* and *risk shifting*. Additionally, marketing channel systems are suggested to benefit by having slotting fees contribute to more efficient *shelf-space allocation* and *demand/supply apportionment*. Finally, these fees are argued to provide competitive efficiencies by serving as a *facilitating practice for lowering retail price*. Each of these perspectives is summarized in Table 2 and described below.

Signaling and Screening. Slotting fees have been suggested to provide efficiencies to the process of new product introduction by (1) helping manufacturers communicate information to retailers concerning the likely success of product innovations, and (2) helping retailers evaluate this information (Toto 1990; Kelly 1991; Chu 1992; Messinger and Chu 1995; Lariviere and Padmanabhan 1997; Sullivan 1997). Given the differing channel positions and market objectives of manufacturers and retailers, as well as the presence of other products vying for retailers' interests, manufacturers face a difficult task: convincing retailers of their new products' probable success. That is, how can manufacturers communicate, in a credible manner, their

product knowledge? Retailers face the challenge of effectively evaluating the information provided. Through slotting fees, manufacturers are argued to be able to credibly distinguish product innovations they believe will be successful from those that they do not, and retailers are able to effectively evaluate such distinctions.

For the manufacturer, the offer to pay a slotting fee communicates or "signals" that it has sufficient confidence 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. For the retailer, requiring slotting fees, and then observing the magnitude of payment or nonpayment, helps them evaluate the credibility of information manufacturers provide and "screen" out potentially unsuccessful products. It is argued that by setting slotting fees high enough so that only manufacturers confident that they can recover the fees pay them, a retailer is better able to pinpoint successful new products.

Cost Sharing. Many retailers assert that slotting fees compensate them for the increasing costs of introducing and managing a proliferation of new products, which are neither adequately researched nor supported by manufacturers (Toto 1990; Lariviere and Padmanabhan 1997). Retailers contend that, to be fair, manufacturers should share in these costs. Manufacturers generally disagree and respond by arguing that the actual amounts paid for slotting fees often bear little relation, or are intractable, to the new product costs retailers claim.

Retailers see slotting fees as covering the elevated costs of overhead, warehousing, personnel, and computer time, plus the opportunity costs of foregoing other potentially more profitable products—including private label brands. While little data is available, it is clear that retailers incur significant costs when introducing new products. One study by Deloitte and Touche (1990) suggests that, on a per-SKU basis, these costs (exclusive of opportunity costs) average $13.51 per store, with costs to delete an item averaging $10.77. This same study found slotting fees to average $36.34, suggesting some disparity between fees charged and costs incurred.

Risk Shifting. A related contention is that slotting fees shift the risk of new product acceptance back to manufacturers that are in a better position to control this risk through research and support (Toto 1990; Kelly 1991; Sullivan 1997). This argument is based on the classic economic principle that exchange enables parties to efficiently allocate risk in a manner beneficial to both. In theory, market exchanges are expected to lead to the allocation of risk to those best able, in a cost sense, to reduce it. One factor influencing the level of risk is information. When one firm possesses more information than another, its risk is reduced. Absent restrictions, the expectation is that market exchange will allocate risks to those with better information.

With regard to new products and their risk of failure in the market, the assumption is that manufacturers—as the source of product innovation—are better informed. Economic theory would predict, therefore, that market forces would tend to allocate more risk to the manufacturer. Slotting fees are argued to be a mechanism through which this risk allocation takes place.

Shelf-space Allocation. Advocates of slotting fees also contend that these fees enable a scarce retail resource (i.e., shelf-space) to be allocated to its best possible use (Toto 1990). According to this perspective, shelf-space is viewed as a commodity, with manufacturer-paid slotting fees reflecting an auction-like bid for the rental of such space. A manufacturer who tenders the highest bid is assumed to be in the best competitive position to generate the greatest returns on the shelf-space, by providing products in the form and variety most desired by consumers. Retailers basing product assortment decisions on slotting fees, therefore, are thought to allocate shelf-space in ways that optimize consumer utility.

Demand/Supply Apportionment. Another argument for slotting fees points to their use as a mechanism for equating an oversupply of new products with a less-than-commensurate demand for them (Sullivan 1997). According to this view, product proliferation has led to an oversupply of new products compared to their marketplace demand. Slotting fee payments induce retailers to accept new products they might not otherwise, given the added costs and questionable ability to recover these costs through sales of the new products.

The costs of adding new products at the retail level involve the one-time inventory and shelving costs, as well as subsequent carrying, restocking, and reordering costs. Where these added costs are also accompanied by consumers seeking the offered innovations or benefiting from the added variety and lower search costs, retailers can recover these costs through expanding their sales and charging higher prices. However, if expanded sales do not occur (because consumers fail to envision the products as being truly innovative), or if consumers are not willing to pay the price premium (because the added variety does not diminish consumer search costs), these costs will be more difficult to recover. Under such circumstances, retailers will tend to resist adding new products unless they receive some form of compensation for their added costs. Slotting fees are argued to provide retailers with such an incentive.

Facilitating Practice for Lowering Retail Price. A final efficiency argument characterizes slotting fees as a mechanism for lowering retail prices. According to this view, the upfront payment of slotting fees "unbundles" the cost of shelf-space from the product transaction (cf. Sackuvich 1998). This unbundling effectively reduces the price paid by retailers for the new product, enabling them to compete more aggressively in their pricing to consumers. The efficiencies obtained through slotting fees in screening, cost sharing, risk shifting, and shelf-space allocation are also argued to permit more aggressive pricing.

The Market Power School

Opponents of slotting fees are not persuaded by the arguments that claim competitive efficiencies for slotting fees, but see these fees as diminishing competition. In 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 thought to damage manufacturer competition through their use as a strategy of *competitive foreclosure*. Finally, slotting fees are argued to diminish retail competition by serving as a *facilitating practice for increasing retail prices*. Each of these perspectives is explained below and summarized in Table 3.

Exercise of Retailer Market Power. As a basis for explaining adverse manufacturer sentiments toward slotting fees, some observers point to their occurrence in the context of increasing retailer power and influence (Toto 1990; Chu 1992; Messinger and Chu 1995; Lariviere and Padmanabhan 1997; Sullivan 1997). Power in this sense means the ability to influence price to other than competitive levels. This control over price is argued to be exercised and exploited by retailers that institute a fee charged for accepting new products or providing other services to manufacturers. A critical assumption is that retailers, indeed, have obtained increased power in their relationships with upstream channel members.

In support of this assumption, proponents contend that through consolidation and technological advancements in distribution, grocery chains have acquired increased market clout. Among other things, mergers have contributed to the consolidation and increased concentration of the retail grocery market in many geographic markets. Retailer power has also been enhanced by scanner technology, enabling retailers to assess faster and with greater precision a particular product's profitability, instead of relying upon manufacturer data. An increasing number of products have also contributed to more retailer power, by elevating the demand for shelf-space. Together, these factors are suggested to have provided retailers with increased influence over their upstream channel partners in recent years. Slotting fees are argued to reflect the manifestation and exercise of this increased market power on the part of retailers.

Channel Relationships. Another contention against slotting fees is the acknowledged controversy between manufacturers and retailers over these fees and the implications of this conflict for channel relationships. Disagreement over slotting fees has reached such levels in some channels that it has damaged overall cooperation among members ostensibly positioned to complement one another in delivering value to consumers (Dagnoli and Freeman 1988; Lucas 1996). Commentators have suggested that the ongoing dispute is the single greatest challenge to the future health of the grocery industry (Lucas 1996). Others argue that manufacturers and retailers need to come together to solve the escalating controversy, particularly if the industry is to move forward and realize the benefits of innovative supply chain management initiatives like ECR in the grocery industry (Kurt Salmon Associates 1993).

A key concern is that conflict over slotting fees disrupts critical functions necessary for an efficient and competitive channel system. One contention is that this tension reduces the otherwise ongoing flow of information between channel members. Another assertion is that disagreement over the role of slotting fees has led to some unintended consequences for marketing channel strategy. An often-cited illustration is the impact of slotting fees on the level of marketing support and promotional strategies offered by manufacturers. Dissuaded by retailer explanations for slotting fees and believing they are merely employed to bolster retailer profits, many manufacturers cover the costs of these fees by shifting marketing funds from other promotional areas, including consumer programs. Critics contend such practices result in the inefficient allocation of marketing resources and less consumer information.

Discrimination. Great concern has also been expressed about slotting fees being used by retailers as a basis for discrimination among manufacturers, particularly large versus small firms (Aalberts and Judd 1991; Desiraju 1994; MacAvoy 1997; Sullivan 1997). Given their reported private nature and negotiated agreement, retailers are thought to be able to ask for and receive different fees from different manufacturers.

A particular contention is that some manufacturers are able to negotiate lower fees or avoid them altogether, leaving other firms to pay disproportionately. Larger manufacturers, given their market size and bargaining position, are said to benefit from such practices, increasing their profits to the disadvantage of smaller, less resourceful rivals.

While the laws addressing price discrimination are complex and prone to interpretation (cf. Aalberts and Judd 1991), the FTC has suggested that the discriminatory application of slotting fees may be considered unlawful (Federal Trade Commission Guides 1990).

Competitive Foreclosure. Slotting fee usage has also been criticized as a competitive strategy that allows more resourceful competitors to intentionally foreclose smaller rivals from the market by bidding up the price of shelf-space (MacAvoy 1997). Such efforts can disproportionately raise the costs of new product introductions for smaller, less powerful manufacturers—resulting in diminished profits and less innovation from these firms. Given distribution dynamics in many market channels, shelf-space is considered an essential input or facility with respect to producers and manufacturers. By bidding up the price of this input through slotting fee payments, more resourceful competitors are able to raise their rivals' costs, with the eventual aim of denying them access to such inputs or leaving them less able to compete. Foreclosed firms may be forced to seek alternative channels for their products or even exit the industry altogether. The end result, in some instances, is that consumers may be deprived of worthwhile new products.

Facilitating Practice for Increasing Retail Prices. A final explanation and objection to slotting fees is that the upfront payment of these fees and their direct impact on retailer profits tend to lessen aggressive retail competition, leading to higher prices. As explained by Shaffer (1991, p. 121):

> 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.

According to this view, slotting fee payments indirectly result in higher retail prices by providing upfront profits to retailers, which in turn lowers their incentive to compete vigorously on price. Manufacturers, while desiring lower retail prices, pay slotting payments in response to the intense competition for shelf-space.

Method

To examine which school of thought better describes the effects of slotting fees, a large-scale mail survey of managers in one or more industries where slotting fees were practiced was conducted. The purpose of the survey was not to directly test the theoretical perspectives offered in the literature and outlined earlier, but to determine whether industry participants believed the different perspectives accurately reflect slotting fee practices. Given the early stage of theory development and paucity of empirical evidence on slotting fees, obtaining the views of industry participants was considered important for advancing our knowledge and guiding future research.

The design of the survey was influenced by a review of relevant trade press articles and 10 preliminary in-depth interviews with executives from industries where practices similar to slotting fees have been observed (i.e., consumer packaged goods, pharmaceuticals, musical recordings, and books). These interviews yielded a number of insights:

- *Grocery Industry Sample.* Significant differences in the way slotting fees were being used across industries were observed. These differences indicated comparisons across industries would be difficult, suggesting that we focus on one industry. We elected to focus on the grocery industry, where the practice has been reported to be most common.

- *Manufacturer, Wholesaler, and Retailer Participants.* Observations and opinions about slotting fees varied, depending on the channel level. This suggested that we obtain the views of managers representing differing channel positions. In the grocery industry, three channel levels appeared relevant—manufacturers, wholesalers, and retailers.

- *Manager Informants.* While boundary-spanning personnel were largely responsible for negotiating and implementing slotting fees, the budget impact and strategic nature of the fees meant that knowledge of the practice was at both the operational and strategic levels of firms. This suggested that we focus on managers occupying positions at these levels for our key informants. Within the grocery industry, retail managers responsible for procurement and merchandising were most involved, while for manufacturers, marketing and sales managers had the most experience with the practice. Wholesalers, who both paid and received slotting fees, had both types of personnel familiar with the practice.

- *Confidentiality and Anonymity in Data Collection.* Slotting fees were an emotional and sensitive topic; many managers—particularly those in retailing—were unwilling to speak "on the record" about them. This suggested that we pay special attention to maintaining confidentiality and anonymity in data collection and analysis.

- *Sample Design and Measurement Considerations.* Managers in the various industries were incredibly busy and deluged by surveys. This suggested that we pay particular attention to (1) respondent participation through our sampling design and nonresponse bias testing, and (2) respondent fatigue through our instrument design, measures, and measure assessment.

Grocery Industry Survey

As a result of the insights obtained through the executive interviews, an industry-wide mail survey of managers in the grocery industry was conducted. Using a short questionnaire (one folded-over legal-size sheet with closed-ended questions) and a cover letter that stressed the involvement of our universities and the Marketing Science Institute, responses were solicited from industry participants representing manufacturer, retailer, and wholesaler grocery institutions.

Sample. Our sampling frame consisted of 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"). A random sample was drawn from each list, resulting in an initial mailing of 2,568 questionnaires—1,210 to manufacturers, 1,184 to retailers, and 174 to wholesalers.[2] A cover letter and questionnaire were sent to all sample members in the fall of 1996. One week later, each recipient was sent a reminder postcard. Finally, three weeks after the initial mailing, a follow-up letter and second copy of the questionnaire were sent to all sample frame members. To guarantee respondent anonymity and confidentiality, no attempt was made to track respondents by numbering questionnaires (Dillman 1978). Because of incorrect addresses or respondents' unfamiliarity with the subject, 110 mailings were returned incomplete—reducing the qualified sample to 2,458. A total of 802 completed questionnaires were returned for an overall 33 percent response rate—including 285 from retailers, 379 from manufacturers, and 91 from wholesalers. An additional 47 respondents classified their firms as being involved in activities at more than one channel level.

Based upon the objectives of the study, respondents who reported their firm was involved in multiple-channel-level activities were excluded from the sample. Because wholesaler respondents indicated that their channel level both paid and received slotting fees, the current analysis focuses on the responses of retailers and manufacturers.[3]

Key Informants. The perceptions and opinions of grocery industry managers were sought in the study. Preliminary interviews indicated that in retail firms, buyers, merchandisers, and their managers best met the criteria of being knowledgeable about the phenomenon under study. For the manufacturer firms, marketing, sales, and product management personnel were thought to be most informed.

Table 4 provides a summary of characteristics of the respondents and their firms. The titles of the respondents and the average experience in the industry suggest that the sample includes informants who were familiar with industry practices, and thus knowledgeable about the practice of slotting fees. Further, the sample includes respondents representing the perspectives of firms of varying sizes and geographic markets served.

Table 4. Characteristics of the Respondents and Their Firms

	Manufacturers	Retailers
Respondents	379	285
Job Titles		
President, Owner, CEO	6%	9%
Vice President	26%	18%
Sales Management[a]	40%	
Category Manager		18%
Marketing/Product Management[a]	16%	
Buyer/Merchandiser		18%
Directors/Managers (usually of Procurement)		36%
Industry Experience	18.1 years	24.9 years
Size of Firm		
One of the biggest in the industry	23%	19%
A mid-size firm	36%	27%
Smaller firm	40%	52%
Geographic Market Served		
Worldwide	23%	2%
National	41%	6%
Regional	32%	37%
Local	4%	53%

[a] 11 respondents listed themselves as Directors of Sales and Marketing and are included with both of these categories.

Note: totals may not = 100% due to rounding or "other" responses.

Tests of Nonresponse Bias. Two tests were conducted to assess the possibility of nonresponse bias. First, early and late respondents were compared. Over half the responses were received after the third and final mailing, and this group was compared to the rest. Groups were compared on their level of experience in the industry, their firm's business (i.e., retailer versus manufacturer), firm size, and the geographic markets they served (i.e., global, national, regional, or local). Early respondents were found to be slightly less experienced in their industries (i.e., an average of 20 years versus 23 years, $p < .01$), but were found to be similar on other measures.

A second test of nonresponse bias was conducted through telephone interviews with 154 randomly selected members of the sampling frame. These interviews focused on retailers (80) and manufacturers (74), since we had obtained an excellent response rate with wholesalers. Of those contacted, 52 (34 percent) said they had completed and returned it—a response rate very similar to the mail survey. Those indicating they had not received and/or not returned the questionnaire were asked three questions contained in the mail questionnaire. Responses to these questions were then compared with the completed questionnaires. No significant differences were found between respondents and nonrespondents on questions addressing firm size and the growth of slotting fees in their industry. However, for

a question addressing industry experience, nonrespondents had somewhat less than respondents (16.5 versus 21.3 years, $p < .01$).

Finally, two additional questions (not in the mail survey) were asked of all phone contacts in order to compare self-reported responders to self-reported nonresponders. The two groups did not differ on questions about their knowledge of the practice of slotting fees and about their perception of the importance of slotting fees. Although respondents were slightly more experienced than nonrespondents, little evidence of potential nonresponse bias was observed.

Measures and Measurement Assessment. Concern for respondent participation and fatigue led us to limit the length of the questionnaire, and dictated the nature of measures that could be employed in the study. Only a limited number of items or questions could be included to address each research question. Multiple-item scales for each question were not feasible. The items and questions employed to examine the various research questions are shown in Table 5. Essentially, we sought to explore the extent to which the respondents tended to accept various facets of the underlying views of the efficiency and market power schools of thought. The rationale for the content of most of the items should be reasonably clear given the previous discussion—with measures designed to learn respondents' perspectives on the research questions outlined in tables 2 and 3. However, the basis for the content of other items may be less clear and are elaborated upon in the following presentation of our results.

Given the nature of measurement employed in the study, standard measurement analysis was not feasible; however, a check for response reliability across items within the questionnaire was included. Each questionnaire contained one duplicate item spaced reasonably apart. Responses for these duplicate items were compared and no significant differences in the mean were found. The items were highly correlated ($r = .65$; $p < .001$), providing some evidence that respondents were attentive and involved in their completion of the questionnaire. Further indicating the respondents' involvement: 42 percent responded to an open-ended concluding question that permitted comments on the practice of slotting fees or the questionnaire.

Results

The results obtained from the survey are presented in Table 5. The mean responses obtained on each item for the manufacturer and retailer respondents are shown. Unless indicated otherwise, values reported in the following discussion differ from the test value with a probability less than .01. Significance tests were compared to each relevant scale point (see bottom of Table 5)—for example, on Likert scales with endpoints labeled "strongly agree/strongly disagree," tests compared the responses to the midpoint. The final 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 tend not to agree with the view that slotting fees serve as a conscious signal of the likely success of a new product, or as a mechanism for screening new products. Both manufacturers (1.49) and retailers (2.02) disagreed (5-point scale, "strongly disagree" to "strongly agree") with the statement "Slotting fee size is a good indicator of the likely success of a new product." Agreement would tend to indicate that slotting fees provided some form of information signal concerning a product's likely success.

Manufacturers and retailers were also asked if they agreed with the statement, "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." Both manufacturers (1.75) and retailers (2.49) disagreed, suggesting respondents did not perceive that slotting fees serve as a screening mechanism for new products. Stronger disagreement was observed in the manufacturer sample, but retailers still, on average, disagreed.

We also did not obtain evidence that respondents were using slotting fees as a signal or screen without being conscious that they were doing so. Reports of increases in successful new product introductions could indicate that signaling and screening were working, whether or not respondents recognized that they were. The responses to the question, "What effect have slotting fees had on the percentage of successful new product introductions?" averaged out to very near "no effect" (the center point) for retailers (+.10, p = n.s.) on the employed bipolar scale ("large decrease"–"large increase"), and for manufacturers (-.18), a slight decrease.

Interestingly, the bulk of our findings tend to contrast with the ideas advanced by scholars applying economic models to the study of slotting fees, who argue that these fees serve as signaling and screening mechanisms. Work by Chu (1992), Messinger and Chu (1995), and Lariviere and Padmanabhan (1997) illustrate the role of slotting fees as a mechanism for conveying new product information under differing circumstances. Sullivan (1997) provides some empirical support for the signaling view employing secondary data. Future research might attempt to distinguish these findings from those obtained here. In this regard, the conscious/unconscious explanation deserves further inquiry.

Table 5. Measures and Results

Measure	Response Cues	Manufacturers	Retailers	Difference[d]
Efficiency School				
Signaling and Screening				
Slotting fees are a good indication of the likely success of a new product.	*s.d. – s.a.*[a]	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.*[b]	-.18*	+.10	m*
Cost Sharing				
Slotting fees have come about as a result of the increasing costs of handling products.	*n.f. – m.f.*[c]	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*
Market Power School				
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*	
What effect have slotting fees had on profit levels of larger retailers?	*l.d. – l.i.*	+1.12*	+.69*	m*

Channel Relationships				
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*	d*
Slotting fees have resulted in less consumer-directed marketing.	*s.d. – s.a.*	3.87*	2.50*	d*
Discrimination				
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*	3.40*	m**
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	d*
Competitive Foreclosure				
Manufacturers have sought alternative distribution channels for their products as a result of slotting fees.	*s.d. – s.a.*	3.85*	2.80*	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 number of new product introductions by larger manufacturers?	*l.d. – l.i.*	+.25*	+.39*	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 innovativeness of new product introductions by larger manufacturers?	*l.d. – l.i.*	+.32*	+.41*	
Facilitating Practice for Raising Retail Prices[e]				
What effect have slotting fees had on the prices charged by retailers?	*l.d. – l.i.*	+.58*	+.25*	m*

[a] Response cues: 1 = strongly disagree; 5 = strongly agree, test value for significance tests = 3 (neither agree nor disagree)

[b] Response cues: -2 = large decrease; 0 = no effect; +2 = large increase, test value for significance test = 0 (no effect)

[c] Response cues: 1 = not a factor; 5 = major factor, test value for significance test = 1 (not a factor)

[d] Results of tests of differences between responses of retailers and manufacturers, m = magnitude difference, d = direction difference. A direction difference indicates that the conclusion drawn differs between retailers and manufacturers.

[e] Question also appears above under “Efficiency School.”

* $p < .01$

** $p < .05$

Cost Sharing. The responses given to several questions suggest that both manufacturers and retailers see the increasing costs of new products as a factor in the development of slotting fees, but they do not see extensive cost sharing occurring as a consequence of these fees. Both groups seem to acknowledge that new product introduction costs are substantial enough to stimulate a desire for cost sharing, although retailers seem more conscious of these costs. On a scale of 1 ("not a factor") to 5 ("major factor"), retailers averaged a 3.85 and manufacturers averaged 2.76 in response to the item, "Slotting fees have come about as a result of the increasing costs of handling products." Our view was that respondents had to first observe increasing costs as a causal factor driving slotting fees in order to perceive an opportunity for cost sharing.

As a basis for understanding the extent of cost sharing that might be taking place, we also asked about the relation of new product costs to the amount charged for slotting fees. Retailers (3.43) tended to agree with the statement, "The amount charged for slotting fees does not cover the costs a retailer incurs in adding a new product," while manufacturers (1.73) disagreed. Agreement would tend to indicate that slotting fees had not been used for cost sharing, or at least that the fees had not been set high enough to achieve cost sharing. Disagreement could mean that slotting fees had been used to share and cover costs, or it could mean that the fees had gone beyond mere cost sharing into the realm of supplementary payments for space.

The divergent responses probably indicate that retailers feel slotting fees are not high enough to cover their costs and produce cost sharing, while manufacturers feel that the fees go beyond what is needed for cost sharing. Clearly, manufacturers and retailers see the costs incurred by retailers in accepting new products and the extent of cost sharing in different terms. One possible explanation may be in the way managers consider these costs. Retailers may consider the opportunity costs of carrying a new product when estimating costs, while manufacturers may not. Further research might help to better understand the source of these divergent perspectives.

Risk Shifting. Our respondents appear to see risk shifting taking place through the use of slotting fees. When asked about the occurrence of risk shifting, both manufacturers and retailers agreed with the statement, "Slotting fees simply shift the risk of product introductions away from retailers and back to manufacturers," with manufacturers (3.56) observing this shift slightly more than retailers (3.17; $p < .05$).

Focusing on the level of risk held by each party as a result of slotting fees, both manufacturers (+.82) and retailers (+.49) observed slotting fees as creating an increase in the "risk in new product introductions for *manufacturers*." On the other hand, manufacturers (-.57) believed that there was a decrease in the "risk in new product introductions for *retailers*," but retailers (-.09 p = n.s.) observed an insignificant decrease in risk. Thus, although both parties saw changes in the risk of new product introductions, manufacturers believe this risk to have shifted from retailers to manufacturers, and retailers saw risk for manufacturers increase without a significant corresponding decrease in their own risk.

From these results, it would appear that both manufacturers and retailers see slotting fees as facilitating the shift of risk from retailers to manufacturers for the

introduction of new products. Sullivan (1997) reports a similar finding employing secondary data. One view is that manufacturers, as the source of product innovation, are in the best position to control this risk, suggesting slotting fees facilitate efficient new product risk allocation. Further research focusing on this effect is needed to fully understand this potential.

Shelf-space Allocation. Our results suggest that respondents differ somewhat in how they perceive slotting fees affecting the allocation of shelf-space to products. Addressing the logic that shelf-space itself is a commodity and that payments of slotting fees reflect bids toward shelf-space rental, manufacturers (3.72) agreed with the statement, "Slotting fees are simply rent for shelf-space," while retailers (2.54) disagreed. Additionally, focusing on retailer product assortment decisions and their connection to slotting fees, manufacturers (3.78) again agreed with the statement, "Retailer product assortments are often based on slotting fees," while retailers (2.50) disagreed.

From the results obtained, only manufacturer sentiments may be considered consistent with the perspective that slotting fees serve as a mechanism for efficient allocation of shelf-space. Manufacturers appear to view shelf-space as a commodity and slotting fees as providing rent for shelf-space, with retailers making product assortment decisions based on these fees. Retailers do not share this view. Further research addressing these contrary views is required to fully understand this perspective.

Demand/Supply Apportionment. Various questions in our survey also provide insight into the argument that slotting fees balance an oversupply of new products where a less-than-commensurate demand for these products exists. Respondents ranked nine factors on their contribution to the use of slotting fees, and "growth in the number of new products introduced" was identified (5-point, "not a factor" to "major factor") as the main reason by retailers (4.17). Manufacturers (3.80) identified it as the second most contributing factor. Thus, while it is difficult to suggest that an increasing growth in new products has resulted in an *over*supply of products, both manufacturers and retailers agree that this increasing supply has been an important factor in motivating slotting fees. Related findings are also reported by Sullivan (1997) employing secondary data.

We also inquired as to respondents' views of the relation of slotting fees to demand-based factors, particularly product innovation. In this regard, slotting fees are argued to provide retailers with an incentive to carry products that they might not otherwise, out of concerns related to a product's perceived lack of true innovation. To address this potential, we asked respondents the extent to which one of nine factors contributing to the use of slotting fees was the presence of "fewer truly new products." On a 1-5 scale, with endpoints labeled "not a factor" and "major factor" (1 and 5, respectively), both manufacturers (2.75) and retailers (3.23) saw this factor as a moderate influence on the use of slotting fees—among the nine factors it was rated eighth by manufacturers and sixth by retailers. The results suggest that a lack of innovation in new products is only a modest factor associated with the rise in the use of slotting fees.

In sum, while managers tend to feel strongly regarding the impact of supply-related factors—that slotting fees have come about as a result of an increasing supply of new products—their assessments do not extend as strongly to product innovation as a demand-based factor influencing slotting fees. Admittedly, however, our questions do not address this issue directly. Additional research focusing on the impact of demand-based factors could further inform this perspective.

Facilitating Practice for Lowering Retail Price. Contrary to the view that slotting fees have allowed retailers to compete more aggressively by unbundling the price charged for shelf-space from the product transaction, slotting fees were seen as contributing to a marginal increase "in the prices charged by retailers," both by manufacturers (+.58) and retailers (+.25). A probable explanation: Even though manufacturers pay slotting fees upfront, they consider the cost of these fees in calculating their price to consumers (i.e., they do not unbundle the price paid for space from the new product transaction). Interestingly, our results are in contrast to the secondary-based findings provided by Sullivan (1997) that suggest retail prices have not increased relative to other prices during the period slotting allowances were introducted and became prevalent. Further research could help to reveal the basis of these contrasting findings.

Overview of Findings. Summarizing our results, as shown in Table 6, our findings suggest manufacturers and retailers collectively disagreed with or held mixed views towards several of the perspectives that inform the "efficiency" school of thought for slotting fees. Some shared agreement, however was observed—both manufacturers and retailers viewed slotting fees as being associated with risk shifting in the channel and the apportionment of demand and supply for new products. Each felt the risk of new product introductions had shifted toward manufacturers and away from retailers as a result of slotting fees. Both also tended to agree that slotting fees were associated with an increase in new products and fewer truly new products. They both, however, tended to disagree with items suggesting that slotting fees are associated with signaling and screening and lower retail prices. Neither felt slotting fees were a good indicator of a new product's likely success nor felt a retailer was justified in viewing a product as too risky in the event a manufacturer was unwilling or unable to pay the slotting fee. Finally, manufacturers and retailers differed in how they viewed slotting fees in terms of shelf-space allocation, with manufacturers being more inclined to see slotting fees as a form of shelf-space rental and to feel product assortment decisions have been influenced by slotting fees. Retailers disagreed. Manufacturers and retailers also differed in their views regarding the cost-sharing aspects of slotting fees. While both were inclined to see slotting fees as the result of an increase in the costs of new products, retailers felt these fees did not cover the costs incurred by a retailer in adding a new product while manufacturers felt they did.

Findings on the Market Power School

Exercise of Market Power by Retailers. While arguments regarding the nature of power and influence held by retailers continue to be under debate (see, Farris and Ailawadi 1992; Messinger and Narasimhan 1995; Kim and Staelin 1996), our findings reveal some agreement with the assertions that (1) greater retail influence

Table 6. Overview of Findings

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

is associated with slotting fees, (2) these fees have led to changes in the relative influence of manufacturers and retailers towards one another, and (3) larger and arguably more powerful retailers are more likely to require slotting fees and benefit from them. As reported, our findings tend to contrast with inferences reported by Sullivan (1997), employing secondary data, and those by Toto (1990), employing anecdotal evidence.

When asked the extent to which a variety of factors contributed to the use of slotting fees, manufacturers (4.11) identified "greater retail influence" over all other factors. Retailers (3.37) agreed, but tended to rate this factor comparatively lower (fifth). Both manufacturers (4.35) and retailers (3.81) agreed, however, that "compared to five years ago, retailers are much more likely to require slotting fees." Thus, while manufacturers and retailers differ as to the relative contribution of greater retail influence on the occurrence of slotting fees, they both agree this influence has had an impact, and that retailers are more likely to require these fees compared to five years ago.

In an attempt to better understand the perceived nature of influence extending from slotting fees, we also asked respondents to indicate the effect slotting fees have had on merchandising decisions in the channel. We first inquired as to the effect slotting fees have had on "*retailer's* influence over product merchandising decisions." Both manufacturers (+.94) and retailers (+.59) agreed that retailer influ-

ence had increased as a result of slotting fees, but differed somewhat in their view of the extent. We were also interested in the extent to which slotting fees might provide "*manufacturer's* influence over product merchandising decisions" based upon some type of "quid-pro-quo" arrangement. This was a primary concern underlying the BATF's decision to ban slotting allowances in the retail sale of alcohol beverages (Gundlach and Bloom 1998). Retailers (+.43) reported a small increase, which was not observed by the manufacturers (+.02; p = n.s.). It would appear slotting fees have provided retailers with more influence over merchandising decisions than manufacturers.

Finally, we addressed the contention that larger retailers possess greater influence and power than their smaller counterparts relative to slotting fees. We asked respondents to judge the likelihood that "*large* retailers are more likely to require slotting fees than *small* retailers." Both manufacturers (4.08) and retailers (4.19) agreed strongly, providing some basis for this assertion. We also asked respondents the extent to which slotting fees had contributed to the "profit levels of *larger* retailers" and the "profit levels of *smaller* retailers." In each case, manufacturers (+1.12 and +.32) and retailers (+.69 and +.18) observed some increase in the profits of both larger and smaller retailers, but a somewhat greater increase for larger retailers.

From the above findings, it would appear retail influence and power provide some explanation for the occurrence of slotting fees. Such influence may establish the basis for obtaining slotting fees, with the fees themselves providing the mechanism through which this influence is exercised. Larger retailers appear to possess this influence to a greater extent than their smaller counterparts, at least as reflected in their ability to require slotting fees and obtain greater profits from their use.

Channel Relationships. Our survey results suggest that manufacturers and retailers differ in how they perceive slotting fees relative to other aspects of their channel relationships. Views about various elements of cooperation and decision making held by manufacturers and retailers were found to substantially differ. Focusing on the general argument that slotting fees have had a detrimental effect on the level of cooperation between manufacturers and retailers in channel dealings, respondents were asked their agreement with the statement, "Slotting fees have damaged manufacturer-retailer cooperation." Manufacturers (3.89) agreed somewhat strongly that cooperation had been damaged, while retailers (2.42) disagreed.

Examining more closely certain aspects of cooperation and marketing channel decisions, respondents were also asked about changes in the flow of information between them, as well as about manufacturer marketing support as a result of slotting fees. Again, manufacturers and retailers held contrary views. We first focused on whether the controversy about slotting fees had escalated so as to reduce the level of interaction in the channel in terms of information flow. Manufacturers (3.03; p = n.s.) were generally neutral in their agreement, while retailers (2.08) expressed some disagreement with the statement, "Slotting fees have decreased the flow of information between manufacturers and retailers." We then addressed the contention that slotting fees have resulted in decisions that reduced the general marketing support and consumer-directed marketing activities of manufacturers, because budgeted resources have shifted to pay these fees. Manufacturers reported

a slight decrease (-.26), while retailers (+.21) indicated a slight increase in the extent to which slotting fees have had an effect on "the amount of marketing support provided by manufacturers." Finally, we asked respondents to indicate their agreement with the statement, "Slotting fees have resulted in less consumer-directed marketing." Again, respondents differed, with manufacturers (3.87) indicating agreement but retailers (2.50) disagreeing.

In sum, manufacturers appear to feel slotting fees have undermined cooperation, led to marginally lower levels of marketing support, and resulted in less consumer-directed marketing on their part. Retailers, on the other hand, believe that their relationships have generally not been damaged in terms of cooperation, and that the information flow between manufacturers and retailers, and marketing support and consumer marketing provided by manufacturers, has not been disrupted.

In some respects, it may not be surprising that manufacturers and retailers differ in their perceptions of the impact of slotting fees on the collaborative aspects of their channel relationships. For retailers, slotting fees represent additional marketing support from manufacturers and, perhaps, convey additional information about the products they receive. Indeed, a manufacturer's agreement to pay slotting fees indicates a certain level of obtained cooperation and support. On the other hand, retailers may simply find it difficult to observe changes in consumer-directed marketing by manufacturers. For manufacturers, negative sentiments regarding cooperation may reflect their agreement to pay slotting fees, but underlying objections to them. Manufacturer observations that slotting fees have resulted in diminished marketing support and less consumer-directed marketing may well be the result of these fees coming out of limited promotional budgets and, therefore, diminishing the level of funds available for other support and promotional activities. Anecdotal evidence suggests this shifting of funds has occurred. Additional research would be helpful to determine the specific conditions under which manufacturers and retailers view slotting fees as either damaging or enhancing their relationships.

Discrimination. Our results provide some support for the proposition that not all manufacturers pay the same amount for their slotting fees. Respondents report some manufacturers negotiate lower fees. Our results also suggest slotting fees have contributed to profit differences among large and small manufacturers, possibly due to discrimination. These results differ from inferences reported by Sullivan (1997) and Toto (1990).

With respect to differential slotting fee payments, when asked whether "all manufacturers pay the same amount of slotting fees per SKU per store," both manufacturers (1.47) and retailers (1.69) strongly disagreed, suggesting that firms do indeed pay different amounts. Focusing on the negotiated nature of slotting fees as the basis for discrimination, manufacturers (3.22) and retailers (3.25) agreed, but not strongly, with the statement, "Manufacturers are often able to negotiate lower slotting fees." Manufacturers (3.22) and retailers (3.40) also agreed that, compared to five years ago, "slotting fees are more likely to be negotiated." Thus, while respondents strongly disagree that slotting fee payments are the same for all manufacturers, they are less sanguine regarding whether these payments are being increasingly negotiated and lowered by some manufacturers.

One conclusion is that, as reported, manufacturers do indeed negotiate and pay different amounts for their slotting fees. Extending this logic, however, to suggest that illegal discrimination is occurring, based on indefensible attributes, is difficult given the complicated laws that apply to price discrimination. That some agreement exists as to the increasingly negotiated nature of slotting fees and the ability of some manufacturers to obtain lower fees, does suggest, however, that on some basis, individual manufacturers are able to obtain payment concessions, perhaps differentially than others.

Finally, in an attempt to assess the differential impact of varying payments across manufacturers, we also asked respondents to indicate the effect that slotting fees have had on the profits of small and large manufacturers. Both groups reported slotting fees as causing a decrease in "the profit levels of *smaller* manufacturers," with manufacturers (-1.12) suggesting a larger decrease than retailers (-.54). The groups differed, though, in their perceptions of how "the profit levels of *larger* manufacturers" have been affected by slotting fees. Manufacturers (-.23) saw larger manufacturers experiencing a slight decrease while retailers (+.15) saw larger manufacturers experiencing a slight increase. Although it is difficult to assert that these results are indicative of discrimination, they do suggest differential profit impacts across large and small manufacturers based on slotting fees. Such a result could be expected where smaller manufacturers are forced to pay proportionately more in slotting fees than their larger rivals. Future research should focus on the circumstances under which these conditions occur and whether illegal price discrimination is taking place.

Competitive Foreclosure. Retailers and manufacturers appear to hold different views regarding the foreclosure effects of slotting fees as a competitive strategy by more resourceful competitors to deny their rivals access to shelf-space. Retailers disagree that foreclosure has occurred, while manufacturers indicate some agreement as to this outcome. Consistent findings, however, do suggest that slotting fees may harm smaller manufacturers versus their larger rivals, possibly extending from foreclosure strategies.

To address the gradations of foreclosure that could result from the use of slotting fees as a competitive strategy, respondents were first asked their agreement with the statement, "Manufacturers have sought alternative distribution channels for their products as a result of slotting fees." Manufacturers (3.85) agreed that such outcomes have taken place, while retailers (2.80) disagreed. Respondents were then asked their agreement as to whether "slotting fees have caused manufacturers to exit our industry." Manufacturers (3.34) again agreed, but retailers (2.19) disagreed. Finally, respondents were asked if "slotting fees prevent good products from getting to market." Again, manufacturers (4.09) agreed, but retailers (2.28) disagreed. Thus, respondents tend to disagree over the eventual impact of slotting fees as a mechanism of foreclosure.

To address the more intermediate implications of a foreclosure strategy in terms of new product introduction, innovation, and profits, respondents were first asked, "What effect have slotting fees had on the number of new product introductions by *smaller* manufacturers?" and " . . . the number of new product introductions by *larger* manufacturers." Both manufacturers (-1.19 and +.25) and retailers (-.57 and

+.39) reported decreases for smaller manufacturers and increases for larger manufacturers. Similar results were reported for the effect slotting fees have had "on the innovativeness of new product introductions by *smaller* manufacturers," and the effect slotting fees have had "on the innovativeness of new product introductions by *larger* manufacturers." Manufacturers (-.45 and +.32) and retailers (-.10; p = n.s. and .41) reported decreases for smaller manufacturers and increases for larger manufacturers. Finally, as reported in the prior section, both manufacturers and retailers believe that slotting fees have had a more detrimental impact on the profit levels of smaller manufacturers than on their larger rivals. Together, these findings suggest the differential implications of slotting fees for smaller and larger manufacturers are possibly due to foreclosure strategies.[4]

Overall, the findings suggest that slotting fees have contrary implications for smaller and larger manufacturers in terms of new product introductions, innovation, and profits—reflecting either the intermediate effects of a foreclosure strategy or effects that could be exploited through the exercise of such a strategy. Our results, however, suggest disagreement exists as to the eventual impact of a foreclosure strategy involving slotting fees, with manufacturers and retailers differing in their views regarding implications for products reaching the market and manufacturers exiting the industry or choosing alternative distributor channels. One possible explanation for this divergence of views may be the differential channel position of manufacturers and retailers and their ability to observe foreclosure conduct. Manufacturers may be in a better position to identify foreclosure conduct and its implications. Future research addressing this distinction could further inform this perspective.

Facilitating Practice for Increasing Retail Prices. As reported earlier, both manufacturers (+.58) and retailers (+.25) observed slotting fees as contributing to an increase in "the prices charged by retailers." Though these findings do not inform the logic underlying the perspective of slotting fees, as facilitating higher retail prices reported by Shaffer (1991), they do support its outcomes. As mentioned, however, they are in contrast to secondary evidence provided by Sullivan (1997). Further research may help to understand if the process through which prices are perceived to have risen as a result of slotting fees follows the logic offered by Shaffer (1991) and why these perceptions differ from results reported by Sullivan (1997).

Overview of Findings. In summary, as shown in Table 6, the results suggest manufacturers and retailers shared agreement for several of the perspectives that inform the "market power" school, but disagreed on others. Collectively, manufacturers and retailers both perceived slotting fees as being associated with the exercise of retail power. Each tended to agree that slotting fees had come about as a result of greater retailer influence, and that retailers were more likely to require such fees than five years ago. Each also viewed slotting fees as providing retailers with greater influence over product merchandising decisions. They also tended to view larger retailers as more likely to require the fees then smaller retailers, and for larger retailers to obtain greater profits from their use. Both also tended to view slotting fees as being employed in a potentially discriminatory manner—favoring larger manufacturers over smaller ones in terms of new product introduction, innovation, and profits. Finally, both tended to observe slotting fees as leading to higher retail

prices. The two groups, however, disagreed about how much slotting fees have impacted their channel relationships and whether their use has resulted in competitive foreclosure. Retailers did not observe their relationships being impacted adversely, nor foreclosure occurring, while manufacturers did.

Discussion

Our findings of the views of manufacturer and retailer managers toward the various perspectives of the two schools of thought for slotting fees are summarized in Table 6. In terms of the efficiency school, both manufacturers and retailers tended to agree that slotting fees are a mechanism for shifting the risk of new product introductions back to manufacturers and a basis for apportioning the demand and supply of new products. In contrast, neither manufacturers or retailers felt slotting fees served as a signaling or screening mechanism, nor did they see these fees as contributing to lower retail prices. Manufacturers and retailers disagreed, however, as to the cost-sharing basis and shelf-space allocation implications of slotting fees.

In terms of the market power school, both manufacturers and retailers tended to associate slotting fees with the exercise of retailer market power, to be applied in a potentially discriminatory manner that favored larger manufacturers, and as a mechanism that contributed to higher retail prices. Views on other perspective varied, however, as manufacturers tended to view slotting fees as a practice that undermined channel relationships and foreclosed competitive opportunities, while retailers held a contrary view.

Together, our review of the two schools of thought and empirical study contributes to the overall debate on slotting fees in two important ways. First, we have assembled, organized, and reviewed existing perspectives toward slotting fees in a comprehensive manner, examining the phenomenon more broadly than previous researchers. Such an approach can serve as the foundation for future research and the basis for informing sound managerial and public policy decision making.

Second, our research is the first academic study to provide empirical data on the perspectives of practicing managers toward slotting fees. The ability to obtain the views of these managers for such a sensitive subject has been forthwith considered extremely difficult. We believe future research and policy making need to consider these managers' views, especially since they do not necessarily parallel all of the perspectives represented in the literature.

Additional empirical research on the effects of slotting fees is clearly needed before definitive conclusions can be reached about the validity of the various arguments that inform the two schools of thought. One potential risk of relying on perceptions and opinions data as employed in the current study is that respondents may have been unwilling or unable to report valid and reliable information. Although we used an anonymous survey targeted toward informed industry participants, and apparently had little nonresponse bias, this limitation is acknowledged. Respondents may have had limited information and knowledge about slotting fees, or their perceptions could have been distorted by self-interest. Further, it is possible that some of their actions and motives are unconscious and could not be revealed by the type of study we conducted. Obviously, additional research will help to obtain the most accurate answers to the research questions we pose.

Regardless of what future research uncovers, we feel our results do at least provide strong support for the notion that slotting fees are a source of significant conflict in the grocery channel of distribution. We believe that this conflict may jeopardize the ability of firms in this supply chain to develop a level of cooperation necessary to realize the benefits of efforts such as the recent Efficient Consumer Response (ECR) initiative. The goals of this ECR initiative are to enhance the efficiency of store assortment, replenishment, promotion, and product introduction decisions (Kurt Salmon Associates 1993). Indeed, it has been estimated that full-scale implementation of ECR in the grocery industry could result in savings of over $40 billion. Other industries have found that implementation of initiatives like these requires a high level of cooperation across the supply chain, and this may be hard to achieve while slotting fees are creating so much conflict.

Interestingly, the perspectives we obtained from manufacturers and retailers suggest there may be an opportunity for détente. While various issues elicited contrary views between manufacturers and retailers, this disagreement could potentially be resolved by working together to sponsor joint research projects or by participating in conflict resolution sessions. For example, joint sponsorship of research on the true costs of introducing new products, possibly extending the research of Deloitte and Touche (1990), could help both manufacturers and retailers develop a shared viewpoint about these costs. Of course, utilization of advances in cost accounting techniques (e.g., activity-based costing) could be helpful in this research (Johnson and Kaplan 1987). In addition, conflict could be reduced by joint sponsorship of research on the effects slotting fees have had on the following areas: (1) manufacturer-retailer relations, (2) retailer assortments, (3) allocation of manufacturer's marketing budgets, (4) manufacturer's distribution decisions, and (5) the ability of good products to get to market. Interaction on these topics could provide each side with an opportunity to hear the other's perspective.

Further research is also needed to guide public policy makers on how to treat slotting fees. Several of our results could be interpreted as providing support for putting legal restrictions on slotting fees, but these results should be treated only as provocative insights obtained from industry participants, not as evidence of market failures or legal wrongdoing. Our results indicate that slotting fees are generally negotiated and applied differentially across manufacturers —possibly in violation of the Robinson-Patman Act (cf. Aalberts and Judd 1991; Cannon and Bloom 1991). Our findings also suggest that both large and small retailers are viewed as realizing higher prices and profits because of slotting fees, but the benefits are much greater for larger retailers. Similarly, the profit levels of smaller manufacturers are reportedly harmed much more than the levels of larger manufacturers. Finally, our results suggest slotting fees have been detrimental to the quantity and quality of innovation from smaller firms, but had the opposite effect on their larger competitors. Given that our research only reflects the opinions of members of the industry, future research should attempt to provide more rigorous causal analysis to inform the ongoing public policy debate.

Appendix. Academic Contributions on Slotting Fees

Legal Analysis

MacAvoy (1997)	A number of 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).

Public Policy Analysis

Gundlach and Bloom (1998)	A variety of differences in the regulatory environment, industry structure, marketing practices, and consumer consumption behavior within the alcohol beverage industry, as compared to the broader grocery sector, distinguish and rationalize disparate public policy treatment of slotting allowances by the Bureau of Alcohol, Tobacco and Firearms versus other public agencies.
Kelly (1991)	The emergence of slotting fees could be a natural marketplace reaction to increased product innovation, rather than the result of increased market power at either the retail or manufacturing level. Evidence indicates that at least some of the increase in slotting fees is the result of increased innovation, rather than output restrictions.
Toto (1990)	Slotting fees improve the informational content of the market by placing appropriate incentives before the bilateral participants. The buyer power hypothesis would expect to see shelf-space fees levied on all types of products, but trade publications fail to provide a sufficient amount of support for this theory. The fact that slotting allowances are paid by large and small as well as new and old firms makes the entry deterrence argument less believable. The plethora of new product launches in the increasingly oligopolistic food processing industry has raised the demand for shelf-space to a level where slotting allowances can be charged in order to alleviate the shortage created.

Analytic Modeling

Lariviere and Padmanabhan (1997)	A slotting allowance serves two purposes in launching a product: passing information down to the retailer and shifting costs up to the manufacturer.
Sullivan (1997)	Slotting allowances may serve as a risk-sharing mechanism and may provide a signal of new product demand.
	The appearance of slotting fees has been accompanied by an increase in (1) the supply of new products, (2) the number of new products demanded by retailers, and (3) the total number of products stocked per retailer.
	The appearance of slotting fees has not been accompanied by an increase in (1) the quantity sold by retailers, (2) manufacturer prices, (3) retail prices and profits.
Messinger and Chu (1995)	For new products, manufacturers signal the potential profitability of their products by paying slotting allowances.
	Product proliferation leads to an increase in slotting allowances.
Desiraju (1994)	For setting slotting allowances, the brand-by-brand method allows the retailer to obtain higher allowances, whereas the uniform method allows retailers to enjoy the success of any reasonable new introduction.
Chu (1992)	Retailers can use slotting allowances to screen out low-demand from high-demand manufacturers because only manufacturers confidant of generating enough demand to recover the initial fixed cost of slotting allowances will accept them.
	When advertising effectiveness is sufficiently low, screening with slotting allowances affords higher total channel profits and higher social welfare than signaling with advertising and wholesale price.
Shaffer (1991)	Slotting allowances may have anticompetitive effects that can raise retailer prices and profits.

Notes

1. For an exception employing secondary data, see Sullivan (1997). For recent industry surveys, see *Progressive Grocer* (1996), Partch and DeSanta (1997), *Supermarket Business* (1997), Thayer (1997).

2. Our smaller sample for wholesalers follows the proportionately fewer wholesaler institutions found in the grocery industry, compared to manufacturers and retailers.

3. For the most part, wholesaler respondent views paralleled those found in the aggregate sample. Results for the wholesaler respondents are available from the authors.

4. It is interesting to note that 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."

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