

portant role. It is in this context that it is interesting to note that high advertising outlays generally are concentrated in the nondurables field, where product differences are probably much less. Advertising is very high, for example, in the detergent industry, although detergents are probably less different from one another than automobiles.

In addition, we know that in the proprietary drug field, there are very high advertising outlays for products such as aspirin, although aspirin is aspirin.

Therefore, what we find is that advertising expenditures tend to be highest where real product differences are not pronounced. And advertising tends to be relatively low where real product differences in fact exist.

One might conclude that if there are real product differences, advertising does not play the role that it does play when these differences are absent. It is in this way that I think we can interpret the statistics which indicate that advertising-sales ratios are higher in the consumer nondurable sector than in the consumer-durable sector.

Senator NELSON. I realize there are a lot of factors involved in this, but there are several differences. There is one fundamental difference between the automobile and the drug industry; that is, that the consumer in the one case, automobiles, is qualified to make a judgment of his own to decide whether he likes the style of the car, what horsepower he wants, how many miles per gallon it will travel, what size automobile he wants, and then based upon his experience in buying cars, he is qualified to make his own judgment. However, he has no qualifications for making any judgment whatsoever about a prescription drug.

So they are fundamentally different problems, are they not?

Dr. COMANOR. I agree, they are quite fundamentally different problems. At the same time, we can and do find high advertising sales ratios in industries where, in fact, the consumer does make the purchasing decision—such as cereals and perfumes and soaps. So I would not stress this particular factor as the primary reason why advertising outlays are high in this industry, although I think that the fact that the doctor is the purchasing agent for the final consumer plays a very crucial role on the type of advertising which is undertaken and the effectiveness of these advertising outlays.

Senator NELSON. I was not suggesting that this factor that I mentioned was the most important, or one of the most important, but that it is a factor which differentiates the two products. Please proceed.

Dr. COMANOR. These preliminary observations were corroborated by our statistical analysis where the influence of the additional market structure variables was also considered. We found that advertising has a statistically significant impact on industry profit rates and that this effect is stronger than that of any of the other variables examined.

Furthermore, the magnitude of the effect is surprisingly high. Industries with high advertising outlays earned, on average, profit rates which exceeded those in other industries, after correcting for the other variables, by nearly 4 percentage points. This difference represents, moreover, a 50-percent increase in profit rates. Since profits represent the difference between prices and costs, and since advertising outlays is a cost to the firm making the outlay, these findings suggest