These statistics were presented to Dr. Mueller's testimony. Therefore, I think it is difficult to argue, and I certainly would not, that the drug industry is a high risk.

Senator NELSON. Did you read Dr. Mueller's testimony?

Dr. COMANOR. Yes, I did.

Senator NELSON. Do you agree with him on the point he makes on this question?

Dr. COMANOR. Yes, I do.

In the consumer goods industries where advertising is relatively important, we frequently observe unbranded products which sell at prices substantially below those of highly advertised products even though there may be little real difference between them. Because products which are little advertised must sell at far lower prices than those of their established rivals, the latter can raise prices above costs and earn high profits without fear of enticing the entry of new firms and of the resulting effect on price levels.

High advertising outlays create effective entry barriers through a number of routes. In the first place, high current levels of advertising expenditures create additional costs for new entrants which will generally exceed those for established firms. Because of buyer inertia and brand loyalty, more advertising messages per prospective customer must be supplied to induce brand switching as compared with repeat buying. And therefore, new entrants must be prepared to supply more advertising messages per prospective customer than do their established rivals.

A further disadvantage faced by new entrants is that they must spend nearly as much in total advertising and other forms of promotion as existing firms if their products are to compete with established and well-known products. Since new entrants are generally small, this total expense must be spread over fewer units of output, and therefore the cost per unit may be quite high. Larger established firms, on the other hand, have the advantage of being able to spread this cost further and often spend considerably less per unit sold. Thus, where advertising is important, new entrants are frequently found to bear higher unit advertising costs as compared with their larger rivals.[5] And this factor again enables established firms to set relatively high prices without fear of the effective competition of new entrants.

Furthermore, there is evidence that the cost per advertising message declines as the number of messages purchased increases.[6] New entrants, thus, face higher unit costs which contribute further to their relative disadvantage.

Finally, the need to spend considerable funds on advertising will raise the amount of capital required for entry into the market. Since new firms frequently find it difficult indeed to raise large amounts of

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[5] In the automobile industry, for example, the two smaller firms during the 1950's were found to spend more than twice as much on advertising per car sold as did either Ford or General Motors. Between 1954 and 1957 Studebaker and American Motors spent annually on national advertising approximately $64.04 and $57.89 per automobile sold while General Motors spent $26.56 per unit and Ford spent $27.22 per unit. Chrysler assumed an intermediate position, spending $47.76 per unit. Leonard W. Weiss, "Economics and American Industry," p. 342.

[6] The extent of discounts given to large advertisers is documented in *Federal Trade Commission* v. *The Procter & Gamble Co.*, brief for the Federal Trade Commission in the Supreme Court of the United States, December 1966, pp. 12–13.