

Distribution Problems

Is It Good Management Policy to Assume That Consumer Wants for Particular Goods Are Insatiable?¹

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THE SUBJECT assigned to me is a question, "Is it good management policy to assume that consumer wants for particular goods are insatiable?" The answer is most emphatically "No!" It is difficult to believe that anyone in these days might have an opposite view.

For many years economists have taught that consumers' wants are without limits but this statement has rarely, if ever, been interpreted as meaning that consumers' wants for particular goods are insatiable. Economists have had *general* rather than *particular* consumer demand in view. They have merely called attention to a fact of common knowledge that when certain consumer wants are satisfied others arise. As these are satisfied still others arise and so on indefinitely. The economists' concept of limitless human desire is a very different subject from the one proposed in the title of this paper.

The suggestion that consumer wants for particular goods are insatiable is contrary to ordinary common sense and every-day observation. Consider your own households. Are the wants of the members of your household insatiable? Are there no definite limits to the amount of food desired? Is there any particularly desirable item for which there exists no point of satiety? Are there no limits to the wants for clothing? For fuel and light? For furnishings and other commodities? If your wants and those of your immediate household are limited for any specific commodity, then is it not reasonable to assume that consumer demand generally, which is but a composite of individual wants, is definitely limited for every particular kind of goods made?

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Obvious as it may be that consumers' wants as applied to particular commodities are quite definitely limited, there appears to be a recurring idea among many business executives, particularly among sales and advertising heads and occasionally among production heads, that sales effort can be applied increasingly, indefinitely and profitably without regard to the limits of consumption. Sales policies and sales plans are frequently outlined with unbounded enthusiasm and imagination apparently unhampered either by facts or by experience. High pressure sales methods are devised to carry over such programs of distribution and sales. If any of them ever succeeded we would learn something new from them, something as important as it would be if discoveries were made on how to overcome gravitation or on how to transmute metals on a commercial scale. That most of such sales campaigns intended to increase sales beyond practical limitations fail apparently does not deter those who come after from making the same mistakes again and again.

The faith that there is an unlimited market for any commodity is apparently as widespread as the belief in Santa Claus and is certainly as fruitless of practical effects as the faith in witches and fairies.

It should be admitted at the outset that the facts of practical experience are often incomplete and inadequate as indications of actual possibilities. Because a certain result has never before been accomplished is, of course, no reason why it may not be accomplished in the future. History is full of illustrations of this truth. A change in product, in quality, in quantity, or style, a change in its price, a change in its selling methods, or a change in consumers' desires may easily result in opening up extensive new markets. Experimentation with the

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trends of consumer demand is everywhere and with all classes of goods continuously necessary.

Such readaptations and changes do not alter the truth that the demand for a given commodity is always and everywhere limited. The change in demand in such cases is a result of the change in conditions. But such changes are as likely to have adverse as favorable effects on the extent of demand.

As an illustration of the contraction of consumer wants due to a change in business conditions, take the example of an automobile salesman who back in the period from 1917 to 1920 was known to the automobile trades as the most expert and successful automobile salesman in Greater New York. His operations were carried on in the Bronx. His ability was so great and so well known that business men commonly said that whenever this man set out to sell a car he always came back with a signed order. His sales records were nothing short of marvelous in comparison with other motor car salesmen of that time.

Then came the business depression of 1920 and 1921. This man with his wonderful sales ability, in common with all other salesmen of that time, slumped badly. Despite his most energetic and most carefully planned efforts, this star salesman did not sell a single automobile for nearly nine months.

His prospects who had formerly been easy to land had, for the time being, become very difficult to sell. Their wants for automobiles had declined precipitously. The reasons for the change in consumer demand in this case were obvious. Purchasing power had been greatly impaired. Even beyond the declines in purchasing power consumers held off in fear that the business depression might become even worse.

Such cases of abrupt changes in business conditions and consequent changes in consumer demand must be known to all of you. Luckily consumer wants do not always drop out completely as they apparently did in this automobile salesman's territory. There are, obviously, changes in business conditions going on all of the time which tend either to increase consumer wants or to cut them down, and the best laid plans of sales promotion can scarcely accomplish more than to ride with the rising and falling waves that occur in consumer demand.

It may be asserted, therefore, that there are definite limits in consumer wants for particular goods and as all consumer demand resolves itself finally into particular demands, it may also be asserted that there are definite limits in consumer wants for every class of goods. The neglect of this general fact by industrial and mercantile concerns leads to wreckage and business loss which are inexcusable. A business organized and operating on plans intended to secure a volume beyond the limits of possible consumer demand is foredoomed to failure and loss.

Consumers' wants for all classes of goods are definitely modified and limited by several factors among which may be mentioned *purchasing power, physical limits of consumption, changing living conditions, the competition of other goods serving the same purposes or even different purposes, and changing consumer tastes.*

1. *Limits on Consumer Demand Set by Purchasing Power.* We have, during recent years, been impressed on every hand with the economic progress made in this country. This is indeed a wealthy country. Its people enjoy a greater income than any other of the world. Its annual national income, said to be in excess of ninety billion dollars, is not only the greatest in any nation but the greatest in the history of our own nation. This enormous national income is distributed to nearly thirty million families. The average, that is the mathematical average, per family, is about \$3,000 a year. What indeed cannot be effected by distribution and sale of consumer commodities to this great market. Such is the picture presented for our admiration and as a basis for business building.

We may truly marvel at the economic progress made in this country, but our appreciation of the improvements in purchasing power and of American standards of living should not influence us to over speculation and over valuations. Recent lessons from the stock market seem to indicate that such considerations should come before rather than after the plans are started and investments made.

In the first place the average income of \$3,000 a year per family is meaningless except as an index. Every analysis of actual distribution of income shows that a small proportion of the total number of families have incomes ranging up into the multi-thousands, while the masses of the people have incomes considerably below this average. Prob-