TRADING STAMPS-- WHO'S THE WINNER?

Whether you are an ardent saver of trading stamps, whether you give the retailer the fish eye when they are offered to you, feeling it is not something for nothing, or if you take them with an aside that your wife saves them, it is a retail sales gadget that is apt to be around for sometime.

With everyone having had some manner of contact with trading stamps, we find much interesting data concerning the birth, development, and justification for this retail promotional tool. This paper shall endeavor to show some history, the store's viewpoint on volume and profits from the use of stamps, the consumer's viewpoint, their affect on prices, the adviseability of using stamps, and the possible future of stamps.

The oldest firm dealing in trading stamps, founded by Thomas Sperry, is the Sperry & Hutchinson Co., or the green stamp people. They have had a successful and continuous operation since 1896. The first trading stamps, as differentiated from premiums appear to ~~be~~ have been introduced by Schuster's Department store of Milwaukee in 1891. The Sperry & Hutchineson Co. alone today, has more than 60,000 merchants in all 48 States, issuing S & H Cash-discount green stamps, with about 500 stamp redemption centers, and with a work force of close to 5000 people. This Co. maintains it has succeeded because of three essentially simple reasons. First, it has provided the American housewife with a means for receiving something that has always been due her yet had been denied prior to the S & H system; Second, the retailer has found that providing housewives with a discount for cash is a powerful promotional tool. From his point of view, the S & H green stamp has justified itself time and time again. Thirdly, over the years, the S & H Co. has sought to deserve and to maintain the reputation it has acquired for uncompromising intergrity in every phase of its operation.

In the introduction of any new product into the retail field, or in the maintanance of public demand for a product at the retail level, we frequently find that the judgment of the market is harsh. For example, it is estiamted that over two-thirds of all new products introduced to the American market since the end of World War II have not found acceptance. What this means is that the American consumer, exercising his freedom of choice, has looked over these products, decided they were not satisfactory, and refused to buy them. Because of this refusal to spend his money for them, they have disappeared from the market.

In contrast to the consumer's unwillingness to accept many of these products has been his favorable response to trading stamps and the merchandise for which the stamps can be exchanged. This favorable response is evident in that the consumer makes her purchases at stores which offer trading stamps. To be specific, and to emphasize the consumer demand for stamps, trading stamps are now saved by at least half of all our families. Trading stamps have reached the crest of the greatest boom in their 65-year history. Retailers offering stamps will record about 12% of total retail sales in 1957. This represents a leveling off at the peak that stamps reached in late 1956 after five years of dramatic gain. All of this volume is run through about 400 stamp companies. Only S & H is national in scope. Some of them are old, but a great number of them are new. A recent Gallup poll reports that two out of three American families are saving trading stamps, or about 33 million families.

Today there are some individuals who wish to deny trading stamps the right to the market test which is the very foundation of a competitive economy. What they actually want to accomplish is to take stamps out of the market by legislative action, either directly or by means of taxation. However, they know it is unwise to admit this in explicit terms, so they base their requests on the claim that the trading stamp is an UNFAIR method of competition. In ~~1955~~ 1956, N. Dakota voters decided to vote out the tax(established by vote in 1955), by a 65% favorable vote. It is interesting to note here also that the Securities & Exchange Commison ruled trading stamps are not securities subject to its registration requirements. A group known as the Food Industry Alliance, Inc., composed of supermarkets in the New York City area, argued trading stamps which are sold to retailers, who give them to customers for redemption in cash or merchandise-- are evidence of indebtedness. Under the Alliance argument, the SEC said, streetcar tokens, meal tickets, Christmas card gift certificates, railroad and theatre tickets would be considered securities. S & H had opposed the Alliance in court

As stated previously, the 12% of retail sales in 1957, is a record, in that this volume is about three times the prominence stamps achieved in 1910 to 1916 era, which was the only other major stamp boom in our history, and is about 17 to 40 times higher than the ~~elvel~~ level around which stamps fluctuated during the generation between these periods.

With this leveling off the present stamp boom, it might be well to dwell on the questions retail people have been raising about this form of retail promotion. Let us first ~~question~~ observe the rapid growth of trading stamps. Trading stamps are found to be important in all types of convenience-goods retailing, supermarkets having carried the boom. More that 40% of them give stamps, which amounts to over half the total given by all retailers. Moreover, stamp-giving supermarkets have stimulated many non-food retailers to adopt the same promotion.

The popularity of stamp plans varies directly with the speed with which consumers acquire enough credits for premiums. Most of the stamp programs, therefore, are cooperative. Groups of non=competing retailers in the same neighborhood offer the same stamps and center the program around supermarkets, where consumers accumulate stamps rapidly because of their high volume of purchases. To explain stamp prosperity therefore, we need to find out why so many supermarkets have adopted them, It is interesting to note that food stores were dominant in the pre-World War I stamp period too, but about 1916 the chains introduced "economy" stores and dropped stamps along with credit and delivery service. This marked the beginning of 25 years of more or less vigorous price emphasis in food store competition. The prevalent view throughout these years was that stamps were out of place in an industry ~~which~~ with such low gross margins and profit ratios. From this point we note a number of factors gradually changing this thinking.

The leading factor in the start of the stamp wave was the inability of supermarket managements to further exploit price advantages in order to pull customers away from service stores. There was a distinctiveness first by chains, and then by supermarkets, due to their low price policies. Their principal rivals could not safely imitate this price appeal, because of higher costs. By 1950, however, widespread imitation of the supermarket and strong cost reductions in food wholesaling for independents shrunk the cost differences among large food store rivals, and thereby weakening the price distinctiveness. To broaden their appeal, aside from price, more and more volume was necessary, and harder to get-to cover their increase in size and luxury of store operation.

The trading stamp therefor offered a promotional device. It was a means of attracting customers to a store, although today it is in competition with many other means of promotion. One retailer expands his newspaper advertising, another takes on a radio or TV program, while another enlarges his parking lot and provides boys to carry packages to customers' cars. Other competitors adopt give-away programs. If we are to have the benefits of a competitive economy, we must recognize that promotion is inevitable and that trading stamps are one form of promotion.

The long period of sustained prosperity is also an important factor in explaining the rise of stamps. Contrary to a popularly held idea, stamps have never been a depression phenomenon. Both of the major stamp booms occured after long periods of high-level employment. By contrast, stamps dipped to their lowest ebb in the depression period of the middle 1930's, when price was more essential than service and other "fringe" benefits. The correlation of stamp activity with prosperity is not surprising. When jobs are plentiful and real incomes expanding, consumers are more responsive to convenience extras, to new products, to quality upgrading, and to other nonprice selling appeals.

An important question for the retailer to ask himself is the possible affect trading stamps may have on his volume and profits. Several surveys have been made ~~to~~ OF supermarkets and other stores. "SuperMarket Merchandising" made a study of seventeen supermarkets that were using stamps prior to 1953. The study showed that after using stamps for six months their average weekly increase was 25%. Three firms showed a sales rise of over 60%, while at the other extreme two reported no gain at all. The "Progressive Grocer" conducted a survey in 1956 covering only independents which showed stamp attributed gains averaging 21% for supermarkets, and 18% for superettes. Supermarket gains ranged as high as 75%, superettes as high as 60%. It is reported that although no comparable surveys of soly chains have been made, it is estimated that seven major chains who did add stamps showed gains of 5% to 6%. Another study of service stations associated with an oil company in the San Francisco Bay area in early 1956 shows where S& H stamps ~~are~~ WERE given, stations pumped 45% more gasoline than the average for all stations, whereas those with other stamps pumped 4% above the total average. Those stations without stamps ran 15.5% below the total average.

The general results of these surveys show that stamps have tended to raise the sales volume. Surveys on the effect on stamps on profits have produced similar results. Surveys conducted by "Selling Research, Inc", "SuperMarket Merchandising", and "Progressive Grocer" have borne out these contentions.

As a word of caution, however, businessmen may rightfully ask themselves the question as to whether or not stamps provide permanent benefits. When the store operator is the only one in his field using stamps, the results may be excellent, but when every competitor also has them, stamps may lose their attraction. This contention too, is established by surveys which show that the initial user in an area had better results than the second user, and the third user had still less good effects. However, it has been found that well-established stamp plans are not easily neutralized when rival stores introduce competing stamps.

As to the effect on the non-stamp stores, it has been found that those food-retailing stores in the aggregate have lost about 4% of their market share to the stamp stores. Competition has taken many more forms than stamp imitation, such as lowered prices, heavier advertising, cash register tape premium plans and other give-aways, and added services. Small grocers have probably lost many patrons to non-stamp stores, but not all of the stamp accelerated loss is directly the result of stamp stores' gains.

It is difficult to determine the impact of stamps on the profits of the non-stamp food stores. In a period of rapid population , increase and rising real incomes, a drop IN market share may not mean a drop in actual sales volume per store, particularly if the stores are expanding into items other than food. Many of the non-stamp stores, while fighting a rear-guard action against stamps, have chosen to protect their profit ratio at the expense of market shares.

We now come to the consumer's viewpoint toward stamps. There are of course different consumer reactions, and different community reactions, however, there is strong evidence to show that there has been wide acceptance of stamps, and that there acceptance is not waning. Their attraction is especially strong among younger housewives. In communities with widespread stamp givers, 80% to 95% of the families save stamps. The reasons are basically ~~exonomic~~ economic. Most stamp savers do not think store prices have been marked up as the result of stamps, so the premiums are an actual "plus" for the family's well-being. It is a painless saving to many people. To some savers it may satisfy the collecting instinct, or show to their friends that they are thrifty and economical. There is the further satisfaction in the actual redemption of the completed saved books, and finally the feeling of getting something free.

As to the impact on prices, if vendors do not raise their prices when they adopt stamps, consumers enjoy a discount equal to about 2% to 2½% of their stamp store purchases. The typical premium value is about $2.45 per 1000 stamps. Surveys show that prices have not risen, but rather that stamps tend to intensify competition, and increased competition usually means better service to the consumer, better quality of merchandise, and quite often lower prices. Customers, of course, have to pay for stamps, as stamps cost the vendor money, and every successful firm has the consumer pay for all of his costs.

Stamps are a promotional expense, and it has been found that at least half of the stamp cost during 1955 and 1956 was offset by declining profits--reduced earnings for stores with ineffective stamps and declines for some of the stores which have lost volume to stamps outlets. The stores with effective stamps have increased their volume, enough to offset stamp costs. Profit declines to food stores have been combated by other means, such as A & P's burst into nonfoods in 1956, and a corresponding record profit performance for that year. Other stores have shown improved efficiencies in store operation, as reflected in higher sales per employee.

As to whether or not a store should offer stamps, store management should weigh all methods for enhancing sales. Trading stamps have no mysterious magic. If an inefficient merchant takes them on in the hope they are going to keep him from failure, he is doomed to disappointment, for they won't. Stamps cannot be expected to compensate for failure to offer the variety and quality of merchandise, for the combination of convenience and service which consumers find basically attractive, or for a pricing policy which is out of line with that of competitors.

What approach then should the vendor make in determining whether or not he should offer trading stamps. First he should endeavor to figure the gain required to make stamps pay off. For example, in supermarkets with a typical gross margin of 18% the estimated ~~direct~~ GROSS profit before stamps is about 14%, the estimated stamp cost is 1.9%, and thd estimated ~~direct~~ GROSS profit after stamps is 12.1%. The sales gain needed therefore to break even with stamps without change in gross margin is 16%. It has been found that the gain needed in department stores is about 7%, drug stores 9%, service stations 14%, etc. It should be further noted that even if management thinks it can break even or profit from using stamps, it still should check to see that there is no other investment which will provide a more enduring advantage.

Stamps have been found to be very advantageous to smaller stores. The stamp can better compete with the larger advertising allowances of ~~lare~~ large stores. Stamps minimize the financial outlay, for they can better meet the cost as sales take place. Where store deficiencies are minor, stamps may help to compensate. Furthermore, a small store with a 5% market share can increase sales by 19% by drawing just 1% of business from its competitors. By contrast, a large store with 25% of the market, 1% sales of the remaining 75% will produce only a 3% sales gain, which is not enough to offset stamp costs. His stamp operation success will be further aided by non-competing retailers, who are actively pushing stamps.

Recent evidence indicates that ineffective stamp plans are much easier to drop than has been popularly supposed, provided retailers are willing to substitute compensating attractions for the large segment of consumers who are indifferent to stamps. The strongest stamp stores are competitively vulnerable in their cost structures, which allows the non-stamp store, with an alert management to develope non-stamp attractions which will in turn bring more shoppers to his store.

As to the future of trading stamps, there is no indication that stamps are about to fade. Unless there is a sharp depression or discovery of another revolutionary manner for reducing food distribution costs, the major factors leading to stamp acceptance will continue to influence the market. There seems to be no foundation for the claim of many retailers that stamps are a fad, or something which has temporarly caught the consumer's fancy.

Denver, the city with the longest stamp boom on record (since 1951) is one of the few in which stamps are still increasing in importance. In the Springfield and Eugene areas of Oregon, almost half of the 317 respondents to a survey had been saving stamps for 10 years or more. More than 15% had been saving for 20 years or more. S. & H reports that 6000 accounts have been continuous for over 25 years. It is true that a number of stamp companies have dropped out, and a number of weak stamp plans have fallen by the wayside.

In summary, the trading stamp provides a strong promotional tool in merchandising. The giving of stamps does not allow a retailer to raise his prices, in fact the competition of stamps may tend to lower prices in non-stamp stores. Evidence does not point to the claim that trading stamps are an important factor in increasing retail failures. Finally, trading stamps do have value to the consumer. They do patronize THE store which offers stamps. In fact, the great growth of trading stamps in this country is but further evidence of the flexibility of a competitive economy. And what a competitive system does for the standard of living for those fortunate to live in such an ecomony is no longer subject to debate.

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