August 2, 1960

To the Graduate Council:

I am submitting herewith a thesis written by Walter P. Gorman III entitled "A Study of Trading Stamps in Memphis." I recommend that it be accepted for nine quarter hours of credit in partial fulfillment of the requirements for the degree of Master of Science, with a major in Marketing.

E. C. Dille
Major Professor

We have read this thesis
and recommend its acceptance:

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Charles P White

Accepted for the Council:

Dale Wantling
Dean of the Graduate School

A STUDY OF TRADING STAMPS
IN MEMPHIS

A Thesis
Presented to
the Graduate Council of
The University of Tennessee

In Partial Fulfillment
of the Requirements for the Degree
Master of Science

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by
Walter P. Gorman III
August 1960

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CHAPTER I

INTRODUCTION

The trading stamp is a unique promotional device used primarily by retailers to increase sales volume. In reality, trading stamps are a form of premium coupon. Their use is not new, as stamps were in existence before 1900;[1] but never before have they enjoyed the distribution and interest that they do today. It is estimated that retailers pay some $500,000,000.00 for stamps and that over 50 per cent of families in the United States are saving them.[2] Both <u>Life</u> and <u>Business Week</u> have recognized the tremendous expansion in the industry, with articles describing the "boom." [3,4]

The reason for this recent expansion has been the use of stamps in supermarkets and a favorable retail

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[1]"100 Years of Premiums," <u>Premium Practice,</u> June, 1951, p. 40.

[2]Albert Haring and Wallace O. Yoder, <u>Trading Stamp Practice and Pricing Policy,</u> (Bloomington: Bureau of Business Research, Indiana University, 1958), p. 19.

[3]"Trading Stamps: Bane or Boon?," <u>Business Week,</u> May 19, 1956, p. 43.

[4]"Trading Stamps Become a Sticky National Question," <u>Life,</u> March 4, 1957, pp. 114-116.

climate.[5] The widespread use of stamps in supermarkets enabled housewives to obtain premiums more rapidly and established stamps as more than a passing fad. The tightening of competition, the standardization of retail outlets, and a more mobile customer created a need for retailers to differentiate their stores. Stamps answered this need as a highly effective promotion.

The growth of stamps in Memphis properly reflects this rapid nationwide expansion of the industry. In 1954, a few discount gasoline companies used this type of premium coupon while groceries, drug stores, and cleaners used other promotions. Today, six years later, the market is nearly saturated with approximately three hundred retailers giving stamps. The merchants in Memphis are interested in learning more about the power and significance of the promotion.[6]

I. STATEMENT OF THE PROBLEM

The purpose of this study is to provide a better understanding of the status, usage, and effects of trading

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[5] Eugene R. Beem, "Who Profits from Trading Stamps?," Harvard Business Review, November-December, 1957, p. 124.

[6] J. R. Mann, Vice President of Quality Stamp Company, Personal Interview.

stamps in Memphis by synthesizing existing data and by contributing original research on developments in the city, particularly the practice of extra stamping. Extra stamping is a relatively new procedure in food merchandising in Memphis and an area in which little research has been done.[7] Special emphasis will be given to the use and the effectiveness of extra stamping in promoting specific items or brands within a store and as a loss leader. This study of extra stamping will constitute perhaps the author's most important contribution to a better understanding of recent developments in the trading stamp field.

Information will be presented which should be valuable to merchants, consumers, stamp dealers, and other interested parties on the historical, legal, and economic forces that affect trading stamp status, the operational procedures which channel stamps through the market, and the considerations necessary for managerial decisions by retail merchants and other business interests affected by the promotion. Merchants especially need to understand (1) stamp company operations and selling techniques, (2) the

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[7]Eugene R. Beem, Economist for The Sperry and Hutchinson Company, New York, Personal Letter.

features of trading stamp plans and substitute non-stamp plans, (3) the advantages and disadvantages of trading stamps, (4) the qualifications necessary for successful stamp promotion by stamp vendors, (5) the basis for evaluating stamp companies, and (6) the methods of utilizing the promotion to better advantage.

II. IMPORTANCE OF THE STUDY

Although much objective work has been done in the last few years toward a better understanding of stamps, there remains a constant need to review, analyze, compare, and add to this knowledge. Stamps are dynamic, and up-to-date research from different vantage points is valuable. So far, no objective study encompassing stamps in their various aspects has been done in Memphis, and information from other areas fast becomes out of date. The importance of stamps in the economy itself must be emphasized. Stamps are powerful enough in many cases to ruin a competitor or double the sales of a business.[8] Nearly three hundred merchants have stamp plans in this city, and there have been and will be repercussions and changes. A promotion so important deserves constant attention.

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[8] C. M. Byron, "Trading Stamps--Menace? or Magic?," The Voluntary and Cooperative Groups Magazine, March, 1954, p. 1.

Memphis affords a promising field to study stamps. In January, 1955, no grocery stores and few standard priced gasoline stations had stamps. Within seven months from that date, The Quality Stamp Company and Top Value Enterprises installed over two hundred new accounts.[9] The rest of the stamp history of Memphis also followed a dynamic, interesting course, as will be shown later in this thesis. Today, Memphis has approximately sixty-five grocery outlets and nearly two hundred filling stations giving stamps. There are ten redemption centers in the city. Stamps are big in the competitive picture.

According to Dr. Eugene R. Beem, Economist for The Sperry and Hutchinson Company, an important neglected area of study is the "impact of extra stamping on the market share within a store of specific brands." There is evidence, too, that this extra stamping is an extremely effective method of consumer sampling. Research in this area should prove quite valuable.[10]

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[9] J. R. Mann, Interview, loc. cit.

[10] Eugene R. Beem, letter, loc. cit.

III. DEFINITION OF TERMS

Trading Stamp - "A printed stamp with a certain value, given as a premium by a dealer to a customer and usable instead of money in procuring articles from the issuers of the stamp."[11]

Premium - "A 'prize' or 'reward'. In this study, 'premium' will be used to designate the physical objects bought with the stamps."[12]

Stamp Company - The company that sells and redeems trading stamps.

Retail Vendor - This term will be used to designate the merchant who buys from the stamp company and issues stamps to his customers.

Extra Stamping - The practice of giving more stamps to consumers than the suggested normal amount specified in the contract between the stamp company and the retail vendor.

Fair Trade Laws - In almost every state, legislation legalizing the privilege of manufacturers of a branded good in open competition to sign contracts with retailers in

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[11] Webster's New International Dictionary, 2nd. Ed., (Springfield: Ford C. Merrion Company, 1954.)

[12] Ibid.

order to maintain retail price maintenance has been passed. A non-signers' clause binds other merchants as soon as they are notified. Texas, Vermont, Missouri, and the District of Columbia do not have these laws.[13]

Unfair Sales and Practice Acts - These laws purpose to give the retailer relief from predatory price cutting. The usual provisions specify a minimum mark-up on cost.[14]

Escheat Laws - Laws providing that unclaimed property can be forfeited to the state. In stamp legislation, escheat laws refer to the right of the state to claim an amount from stamp companies equal to their stamp liability account.[15]

IV. SCOPE

While this study will be focused on trading stamps in Memphis, a broader approach will be used so that the local picture can be more clearly understood. Stamp history will be reviewed in its' national and local scope to ascertain the influences that have affected the status

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[13]Delbert J. Duncan and Charles F. Phillips, Retailing Principles and Methods, 3rd Ed., (Chicago: Richard D. Irwin, Inc., 1951), p. 392.

[14]Ibid., p. 396.

[15]Webster's New International Dictionary, loc. cit.

of the promotion. Legal attempts to outlaw stamps in other states will be analyzed to provide information on what could happen in Tennessee, and what did happen in Tennessee will be examined as typical of past legislative attempts. Again both sources in Memphis and sources outside of Memphis will be used to examine economic implications and to appraise stamps. The study of operations will center on the procedures used by stamp companies in Memphis and original research on extra stamping will be limited entirely to food merchandising in the city.

V. REVIEW OF RELATED LITERATURE

Although much of this thesis was written from information obtained from personal conversations with stamp officials, consumers, merchants, and lawyers, available literature has been the basis for the historical, legal, and appraisal chapters. Writings on stamps are scattered through periodicals, published in pamphlet form, printed from speeches and even bound into a hard cover book, which is outlined under this heading. Since most literature contributes to more than one aspect of stamps, the more important sources are reviewed below in chronological order and identified as to contributions.

Articles and Speeches

"Premiums in Retail Trade," an article written in 1905 by I. M. Rubinow, is the oldest literature found on stamps. Mr. Rubinow showed surprising insight by writing such an informative article at that time. Stamps are discussed as a form of advertising, and their advantages over usual premium promotions are pointed out. The operation of a typical stamp plan is traced, and the popularity cycle of stamps from their inception in New York to a point of market saturation is revealed. Included, also, is an outline of the provisions of the New York Law of 1904, (quoted in Chapter III), perhaps the first law on stamps to be passed and declared unconstitutional.[16]

Page 381 of the 1915 Volume of Sunset contains an old-fashioned Sperry and Hutchinson Company advertisement, similar in verbal appeal to advertising of today. On page 857 the unconstitutionality of a law passed by Oregon is reviewed. Sunset argues for a liberal view toward trading stamps, expressing why it would be a curtailment of basic business freedom to legislate them out of operation.[17]

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[16] I. M. Rubinow, "Premiums in Retail Trade," Journal of Political Economy, 13:574-586, September, 1905.

[17] "The Trading Stamp Stays in Oregon," Sunset, XXXV (November, 1915), 852 ff.

"The Economics and Legality of Premium Giving," written in 1916 by C. F. Duncan, includes the Supreme Court decision reversing lower court decisions and declaring the license tax on stamps valid. Included, also, is a functional breakdown of stamp handling, a statement of the 1916 size of Sperry and Hutchinson, and a singling out of the major organizations of the day opposing stamps. The real value of the article, however, is a listing of current arguments for and against stamps. This listing is dissimilar only in minor points from recent listings of arguments on both sides.[18]

"Are Trading Stamps a Fraud?", written in 1917 by David Shelton Kennedy, begins with an exposition of the size of the premium business in the United States. After using figures to express the growing importance of the premium business, Mr. Kennedy condemns stamps and premiums in unmistakable terms. Many reasons are advanced why stamps benefit only the stamp company, and a lashing attack on stamp operators attests further to the bias of the article. Mr. Kennedy does, however, support points of his attack with data obtained from a sampling study on coupons.[19]

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[18] C. F. Duncan, "The Economics and Legality of Premium Giving," Journal of Political Economy, 24:921-50, December 16, 1916.

[19] David Shelton Kennedy, "Are Trading Stamps a Fraud?",

Charles Wesley Dunn, of the New York Bar Association, in 1934 summarized stamp legal history in "The Legal Status of Premium Advertising." This article is important because it sets forth the failure of most anti-stamp legislation to pass state constitutionality tests.[20]

C. M. Byron, executive for the Voluntary and Co-operative Groups (food stores), testified in his 1954 article, "Trading Stamps--Menace? or Magic?", as to why he reversed his previous position to become an advocate of stamps. To support this testimony, he produces a convincing table of store sales before and after stamps. He cites the arguments against stamps but emphasizes the important arguments for stamps.[21]

"Trading Stamps and the Competitive Economy" is a resume of testimony by Dr. Charles F. Phillips, Economist and President of Bates College, before the Subcommittee on Consumer Study of the House Committee on Agriculture, New York City, October 9, 1957. Dr. Phillips defends stamps as a legitimate part of our competitive economy.

The Forum, LVIII, (August, 1917), 247-252.

[20]Charles Wesley Dunn, "The Legal Status of Premium Advertising," Printer's Ink Weekly, July 28, 1932, pp. 56-57.

[21]C. M. Byron, op. cit.

He cites studies which have indicated stamps' effect on prices and retail failure to support his conclusions that stamps are not a predatory method of competition.[22]

"Who Profits From Trading Stamps?", written by Dr. Eugene R. Beem, Economist for The Sperry and Hutchinson Company, in 1957, is a well-knit collection of facts and figures arranged to answer the question. Dr. Beem traces the success of stamps and explains the importance of stamps from the viewpoint of each group affected. Conclusions are pro-stamp. A "leveling off" of stamp activity was forecast.[23]

"The Impact of Consumer Premiums on Marketing Efficiency" is also by Dr. Eugene R. Beem and appeared in July, 1958. Dr. Beem suggests that premium giving is a way of moving merchandise to consumers at minimum marketing margin, and that premiums are not generally a camouflage for undercover price increases. The argument strengthens the case for premium promotion in the economy.[24]

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[22] Charles F. Phillips, "Trading Stamps and the Competitive Economy," an address before the House Committee on Agriculture, New York City, October, 1957. Reprints available from The Sperry and Hutchinson Company, 114 Fifth Avenue, New York, New York.

[23] Eugene R. Beem, "Who Profits From Trading Stamps?", _op. cit._

[24] Eugene R. Beem, "The Impact of Consumer Premiums on Marketing Efficiency," _Journal of Marketing,_ 23:17-24. July, 1958.

"The Outlook for Trading Stamps" was an address given by Dr. Eugene R. Beem in behalf of the Sperry and Hutchinson Company before the Northern California Chapter of the American Marketing Association. He specifically included a short background history of stamps and his forecast for the future of stamps in the United States; he emphasized, however, the reasons why he believes stamps will continue successfully: (1) their psychological appeal, (2) their potential in department stores, and (3) the failure of anti-stamp legislation. He also states five prerequisites for the effective use of trading stamps by retailers: (1) excess capacity, (2) "non-competitive equality," (3) participation in exclusiveness with non-competitive retailers, (4) effective promotion of the promotion itself, and (5) the presence of additional sales potential.[25]

Supermarket News is one of the more important trade papers of the retail grocery field and frequently carries current legal and competitive information on stamps. The dynamic spread of stamps into new areas is traced in successive issues of this publication.

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[25]Eugene R. Beem, "The Outlook for Trading Stamps," an address before the American Marketing Association's Northern California Chapter, November 20, 1958. Copies available from the Sperry and Hutchinson Company, 114 Fifth Avenue, New York, New York.

Eureka Trading Stamp Quarterly, which appeared first in January, 1955, is the only periodical found devoted entirely to trading stamps. This quarterly is the trade publication for the stamp companies and suggests ideas on stamp operations; such as: (1) the proper care of trading stamps, (2) advertising suggestions for stamp companies, and (3) selling techniques.

Advertising Age, a weekly periodical, gives current information on stamps in nearly every issue. "Mortality Rate of Anti-Stamp Bills Was High in 1955," in the July 25, 1955, issue summarizes the peak year for anti-stamp legislation in tabular form. The many short articles since this issue give an account of every major legal issue involving stamps.

Books and Formal Investigations

Trading Stamps is a business report of Indiana School of Business, based on Dr. Harvey L. Vredenburg's doctorial thesis. Written in 1955, this unbiased report is more thorough than any previous work on stamps. Dr. Vredenburg gives a unified explanation of the different areas of stamps, emphasizing the "phenominal" expansion since 1950, the 1955 level of stamp activity, the controversial aspects, and factors merchants should consider in a decision on a stamp promotion.[26]

"Trading Stamps and Their Impact on Food Prices" is a study done by the United States Department of Agriculture, which is particularly important because it is a supposedly unbiased, detailed study of trading stamps' effect on food prices. The report also includes evidence for summarizing (1) the effects of trading stamps on consumers, (2) the effects of trading stamps on retailers, and (3) the effects of trading stamps on farm prices. This study has been widely quoted by stamp interests in defense of the promotion.[27]

"Trading Stamp Practice and Pricing Policy," Indiana Business Report No. 27, 1958, is the most significant work accomplished on stamps to date. This book represents the concerted research of several educators and was financed by a grant from the Foundation for Business and Economic

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[26]Harvey L. Vredenburg, Trading Stamps, (Bloomington: Bureau of Business Research, Indiana University), 1956.

[27]Agricultural Marketing Service, United States Department of Agriculture, Trading Stamps and Their Impact on Food Prices, (Marketing Research Report No. 295) Washington D. C., December, 1958.

Studies. The book goes thoroughly into many of the more important questions raised by stamps and presents objective evidence to support conclusions. Below is a list of the areas receiving special consideration:

1. Influence of trading stamps on retail advertising patterns and practices.
2. Impact of trading stamps on advertising media.
3. Effect of trading stamps on prices and retail pricing practices.
4. Effectiveness of trading stamps as a competitive tool.
5. Effect of trading stamps on retail promotional programs.
6. Influence of trading stamps on women's shopping habits.
7. Consumer interest in trading stamps and patterns of collection.

The conclusions generally are favorable to stamps' position in the economy.[28]

VI. METHODS OF PROCEDURE AND SOURCES OF DATA

Most of the information which does not directly involve Memphis has been gathered from secondary source material. Because there was little secondary source

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[28] Albert Haring and Wallace O. Yoder, *op. cit.*

material available on extra stamping and other developments in Memphis, primary investigation from interviews was necessary. Direct interviews were used to ascertain attitudes toward stamps and sampling to determine the promotional significance of extra stamping.

VII. ANALYSIS AND ORGANIZATION

This study includes History, (Chapter II), Legal Developments, (III), Operations, (IV), Extra Stamping in Memphis, (V), Appraisal, (VI), and Conclusion, (VII). These divisions cannot have precise limits because of interrelation. Appraisal, for example, involves law; and law involves history. Another analysis might contain a breakdown by groups affected. These include: (1) the consumer, (2) the stamp company, (3) the merchant vendor, and (4) the merchant competitor. The former six headings, however, constitute the most direct approach; so they were used as major divisions of this thesis.

Historical discussion adheres to chronological order. Chapter II includes the early developments in the industry, the influence of war and depression, and the present position of stamps in the economy. One section is devoted to Memphis' stamp history and another to a discussion of the stamp cycle.

Legal Developments involves a review of important past cases, for legal history is the basis for future decisions. A Tennessee law, which was declared unconstitutional, is examined as typical of legislative attempts in the nineteen-fifties.

Operations discloses the machinery that moves stamps from their inception as an idea to their destruction with the redeemed coupon books. Chapter IV emphasizes each participant's part in the movement. The chapter contains marketing methods, advertising, and selling procedures. Besides an analysis of a typical stamp plan, atypical and competitive alternative plans are revealed.

Extra Stamping in Memphis includes the tabulated results with discussion of research on extra stamping in Memphis food stores. This chapter attempts to measure the effectiveness of extra stamping in moving specific products within a store and as a loss leader. Extra stamping in its effect on competitive products and as a business stabilizer is also discussed.

Appraisal is an evaluation of stamps from the point of view of each group affected. The implication of stamps to the economy as a whole is shown.

Conclusion contains both a summarization of findings and a subjective analysis of the human attitudes behind the promotion.

CHAPTER II

HISTORY

I. BEGINNINGS OF THE INDUSTRY

Since the beginning of mercantile history, merchants have been giving gifts to create good will and to attract patronage. Stamps are a refined product of the evolution of this idea. Benjamin T. Babbit, in 1851, became significant in this evolution by putting redeemable coupons inside of soap wrappers.[1] This procedure, which established premium advertising in America, proved profitable and spread to other businesses. After the Civil War, two cigar companies, United Cigar Stores Company and Schulte Cigar Stores, experimented by giving coupons as a discount for cash. This increased sales volume so successfully that both companies rose to prominence in the tobacco industry.[2]

In 1891, Schuster's Department Store in Milwaukee devised the first real trading stamps in America by issuing gummed "coupons" to be pasted in a provided book

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[1]Robert Brenner, "B. T. Babbit's Store," Premium Practice, June, 1951, p. 41.

[2]Harvey L. Vredenburg, Trading Stamps, (Bloomington: Bureau of Business Research, Indiana University, 1956), p. 13.

and redeemed for cash in the store.[3] Five years later, Thomas A. Sperry and Shelby B. Hutchinson developed the first independent stamp company in Bridgeport, Connecticut.[4]

This concept of an independent stamp company was a further refinement. It encouraged concerted stamp giving by groups of non-competitive retailers. Combined stamp giving gave the program strength. The housewife who formerly had had to save coupons on individual or grouped items could now save stamps on total purchases from many stores. By shopping in the stores which offered stamps, she could contribute the majority of her monthly income toward one, more valuable, premium.[5]

When The Sperry and Hutchinson Company formulated stamp procedure and policy prior to their incorporation in 1900, they set a pattern of operations which essentially is used today by themselves and many of their competitors. They advertised the idea as a discount for cash, they allowed one stamp for every ten cents of purchase, they

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[3] Ibid., p. 14.

[4] Joseph Nathan Kane, Famous First Facts, (New York: The H. W. Wilson Company, 1950), p. 460.

[5] I. M. Rubinow, "Premiums in Retail Trade," Journal of Political Economy, 13:574-586, September, 1905.

provided books in which to save the stamps; and they set up attractive redemption centers in convenient locations with quality merchandise.[6]

The experiment filled the cash boxes, for the housewives liked the idea. Stamps were "in" and within a few years began to spread over the nation.

II. THE FIRST STAMP CYCLE

As stamps spread toward the West and South at the turn of the century, stamp vendors in the more mature northern markets began to experience vigorous competition. Part of stamp company policy involves granting of exclusive rights to only one merchant of each retail category in a competitive area. Although this policy made the program more effective in the short run for the vending merchant, the needs of his competitors provoked imitation; and the idea could not be patented. Soon stamps began to appear in rainbow varieties and a "status quo" market saturation was established.

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[6]Eugene R. Beem, The Outlook for Trading Stamps, Resume of a talk given before the American Marketing Association, Northern California Chapter, November 20, 1958. Copies available from the Sperry and Hutchinson Company, 114 Fifth Avenue, New York, New York.

Stamps which depended on their exclusiveness for their effectiveness began to neutralize each other and to constitute a continual drain on the profits of the retail vendor. Since each store had similar programs, stamps lost their power as a patronage motive in many cities. Soon double stamps and even triple stamps appeared on the market. This led again to neutralization of consumer appeal, more expense, and lower profits, when imitated by competition.

Such situations stirred merchants to combine for concerted action against stamp companies, which seemed to them parasitical third parties. This often culminated in agreement to drop stamps simultaneously or in an attempt to promote anti-stamp legislation. Consumers grew tired of saving stamps after the novelty disappeared. Despite the causes, the flood of stamps normally subsided to its proper bounds. According to Mrs. Lorena Abbot of the Memphis Retail Grocers Association, these cycles have taken place in the past in many cities.[7]

The unpopularity of stamps among the merchants found expression in New York's proposed law of 1904. This law,

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[7]Lorena Abbot, Executive Secretary of Memphis Retail Grocers Association, Personal Interview.

which made cash redemption mandatory and stipulated that stamps must be redeemed in small lots, was found unconstitutional.[8] Stamps remained in New York.

III. THE SPREAD OF STAMPS THROUGH THE NATION

Stamps spread quickly throughout the country between 1900 and 1905, as the idea proved profitable. Although The Sperry and Hutchinson Company retained its supremacy, both reputable and disreputable imitators established rival stamp companies.[9] In 1903, for instance, the Eagle Stamp Company of St. Louis was founded in connection with the now designated Famous Barr Store. This company was established on service attitudes and principles which have fostered its existence for more than fifty years.[10] Montgomery Ward attempted a variation of the stamp plan in 1905.[11]

Reliable companies, however, were exceptional, for it was during these earlier years that abusive practices damaged the reputation of stamps. Dozens of "fly-by-nighters,"

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[8] I. M. Rubinow, loc. cit.

[9] S. L. Wisebart, President of Eagle Stamp Co., St. Louis, personal interview.

[10] See Chapter V, "Evaluating Stamp Companies."

[11] Ralph Leviton, "Sears Joins Stamp Parade," Retailing Daily, June 15, 1955, p. 1.

interested in quick momentary profits on insufficient capital, appeared to exploit the situation. Many such companies, at inception, expect a low redemption rate or plan to discontinue operations after a short period. Some have cleverly concealed redemption centers to escape obligation. The first few months of saving a new company's stamps represent a period of accumulation, because it takes time to acquire enough stamps for a worthwhile premium. When this period is over, housewives begin to cash in their books of stamps. To some "fly-by-nighters," this entailed a deluge of obligations too large to fulfill. The companies consequently closed without redeeming the stamps. Another abuse of the day was the giving of inferior premiums or premiums other than advertised.[12] Unfortunately, the attitude was often exploitation rather than service and, although such practices have not been as common recently, stamps have had difficulty recovering their reputation.[13]

Stamps from their inception were popular with the housewife; this destined them to become national. By 1915

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[12]"Stamp Stampede," Wall Street Journal, New York, August 18, 1953, p. 1.

[13]S. L. Wisebart, Interview, loc. cit.

stamps were used as far northwest as Oregon.[14] An examination of The Sperry and Hutchinson Company reveals that the company had "mushroomed" throughout the country. In 1916 they had issued 21.5 billion stamps and redeemed 84 per cent (according to their statement). It was also estimated that ten million people collected their stamps and coupons. They had contributed significantly to the widespread growth of premium advertising in the decade.[15] One nationwide survey, taken in 1917, represented 13,672 homes. In well over 50 per cent of these homes premium coupons were being collected. In Cincinnati the average was 70 per cent. The study concluded by estimating that: "More than half of the twenty million families in the United States have at least one stamp collector in the group."[16]

IV. REVERSES DUE TO WAR AND DEPRESSION

In 1916 the Federal Supreme Court upheld the constitutionality of state license tax on stamps,[17] but the war

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[14]"The Trading Stamp Stays in Oregon," Sunset, 35:852-853, August, 1915.

[15]C. F. Duncan, "The Economics and Legality of Premium Giving," Journal of Political Economy, 24:923, December, 1916.

[16]David Shelton Kennedy, "Are Trading Stamps a Fraud?", The Forum, 58:247-252, July, 1917.

[17]C. F. Duncan, *op. cit.,* p. 923.

constituted a more serious reverse. The use of premiums in all forms was significantly curtailed during World War I.[18] Many stamp companies collapsed while others decreased operations or changed the type of premium. Defense cutbacks on materials, a seller's market, and an inflationary spiral have never been conducive to effective stamp promotion. A scarcely better atmosphere was created as prosperity reached its zenith after the war. Stamps usually accompany a sick market, a market requiring stimulations. The depression provided a market that was too sick; many businesses ceased operations, and only an operating vendor could use stamps. While The Sperry and Hutchinson Company advanced after 1931,[19] The Eagle Stamp Company of St. Louis suffered their only sales decline during the depression. Stamp companies were still operating; people in some localities even used them as a medium of exchange when the banks failed, but general activity was low.[20] In recovery years, stamps fell behind other forms of premium advertising. While premium plans "boomed,"

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[18]Harry L. Hanson, "Premium Merchandising," Harvard Business Review, 19:185-196, January, 1941.

[19]"Scorned in Boom Days Coupons and Trading Stamps Return," Business Week, February 10, 1932, p. 12.

[20]S. L. Wisebart, Interview, loc. cit.

stamps recuperated, but more slowly. A survey made by the National Retail Dry Goods Association in 1934 indicated that only 14 per cent of its members used trading stamps. Harry L. Hanson of Harvard states of the post-depression period: "We have no measure of their use by small retailers, but certainly they are not an important part of retail sales promotion as a whole."[21]

Stamps had scarcely recovered from the First World War and depression when World War II began. Premium plans were again seriously curtailed. With the war effort in full swing and almost everything, including necessities, difficult to obtain, there was little need of competitive promotion. The Sperry and Hutchinson Company and The Eagle Stamp Company maintained operations during these years, but many local firms collapsed. Immediately following the war there was a period of business expansion to accommodate high demand. Accumulated cash was being spent, and it was still a seller's market unfavorable to stamps.

V. POSTWAR PROSPERITY

After the "sellers" market of World War II, stamp companies dramatically increased operations to initiate

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[21]Harry L. Hanson, op. cit., p. 189.

the biggest "boom" in stamp history. Factors behind the tremendous expansion in the nineteen-fifties were: (1) overexpansion of retail outlets had led to increased competition, (2) court decisions had weakened retail price maintenance laws, (3) stores had become more standardized in their appeal to customers, (4) cars were becoming more widespread in shopping, and (5) stamp companies refined their selling and promotional methods.[22] The competitive climate could hardly have been better.

In 1951 a Denver supermarket operator experimented by giving stamps. Prior to this time, stamps were thought impractical for supermarkets because their price often exceeded net profit margins; but since supermarkets have a high fixed cost to total cost ratio, a slight increase in volume can cause significant gains in net profit.[23]

The experiment was highly profitable, and this success story started a chain reaction through the nation. In one year, August, 1952, to August, 1953, trading stamps in food stores rose at least 50 per cent. In 1958 an estimated 40 to 50 per cent of all food sales were made through supermarkets giving stamps.

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[22]Albert Haring and Wallace O. Yoder, Trading Stamp Practice and Pricing Policy, (Bloomington: Bureau of Business Research, Indiana University, 1958), pp. 8-9.

[23]Ibid., pp. 7-8.

As chain after chain of supermarkets adopted stamps, other type retail outlets joined the program profiting from concerted stamp giving with the "giants."

In Denver there were 150 stores offering stamps in 1948; and in 1953, there were nine hundred.[24] In Detroit, seven thousand outlets vended stamps in 1955.[25] The Sperry and Hutchinson Company indicated that in 1955 they had 330 redemption centers, fifty thousand retail accounts, and over fifteen million color catalogues in circulation.[26]

Today, stamps are in every state except Kansas.[27] Chains which bitterly opposed and fought stamps have adopted them. The Kroger Company, The National Tea Company, Lablow Stores, Inc., and even Safeway Stores, Inc., who spent millions in opposition, now have stamp plans. In 1956, it was estimated that four hundred stamp companies with gross sales of $500,000,000 issued $480,000,000 worth of premiums. In 1957, a Gallup Poll concluded that two out

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[24]"Stamp Stampede," loc. cit.

[25]Earl F. Wegmann, "Stamp-Minded Housewives Put a Premium on Shopping," Reprint from Detroit News, September 11, 1955, p. 1.

[26]Paul D. Davis, "Green Stamps," Reprint from Providence Sunday Journal, March 20, 1955, p. 1.

[27]Lee Winchester, Jr., Lawyer for the Plaintiffs in Tennessee Trading Stamp Case, Personal Interview.

of three American families had at least one stamp saver in the group. Share of all retail trade made by merchants giving stamps rose from 10 per cent in 1956 to 14 per cent in 1958.[28]

In late 1959 stamps were still expanding in some areas. Supermarket News reported saturation holding (November, 1959) in most of the nation, while some sections with more capacity for expansion experienced actual growth. In Los Angeles, for example, stamps gained much wider acceptance during the fall of 1959, and Safeway Stores, Inc. installed 180 stores in the New York area. Stamps seemed to have gained in 1959. Some chains discontinued, but more have adopted stamps.[29] Extra stamping is characteristic, and stamp "wars" are prevalent.

VI. HISTORY OF THE MEMPHIS AREA

Southern Premium Company, of Atlanta, Georgia, was the first stamp company after World War II to do large scale business in the Central Southern States. Southern Premium

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[28] Frank P. Rossi, "Trading Stamps and the Free Economy," Address before the Harvard Marketing Club, September 29, 1957. Copies available from the Sperry and Hutchinson Co., 114 Fifth Avenue, New York, N. Y.

[29] "Trading Stamp Status Quo Upset," Supermarket News, October 19, 1959, pp. 6-8.

Company began soliciting business in Spring, 1952, and by August, 1953, counted five hundred merchants in the Atlanta area giving their stamps.[30] Mr. William Shepherd, former vice president of this firm, realizing the potential in Memphis, sold the officials of the Big Star Cash Food Stores on the plan and originated the Quality Stamp Company.

Before 1955, stamp operations in Memphis were negligible. Delta Stamp Company, an independent operation, was in the city, but it had failed to do more than "dent" the market.[31] A few discount gasoline stations which offered stamps were also unnoticed by the majority of the public.

In February, 1955, the Quality Stamp Company began operations from a small office, a limited storeroom, and no real showroom for premiums. Catalogues, which were of flimsy, inexpensive paper, offered a poor assortment of merchandise. No salesman except the president, William Shepherd, had had previous experience selling stamps. In spite of these difficulties, the Quality Stamp Company accumulated over two hundred accounts in 1955. William Shepherd's previous experience with the Southern Premium

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[30]"Stamp Stampede," loc. cit.

[31]William Shepherd, former president of the Quality Stamp Company, Personal Interview.

Company, an agressive sales force, and the fact that the Quality Stamp Company was the first company to enter the city in a supermarket chain were largely responsible for this rapid growth.

Top Value Enterprises, Inc., entered the market in The Kroger Companies food chain in July, 1955. This company, which had already experienced success in other areas and which had greater capital backing, was able to use from inception premium assortments, promotional materials, and advertising improved through experience in other branches. Top Value Enterprises, Inc. acquired over a hundred retailers by the year's end.[32]

The success of both stamp companies influenced competition to enter the new market. Early in 1956 the Sperry and Hutchinson Company in the National Tea Companies chain outlets, the Magnolia Stamp Company in the Liberty Cash Grocery chain, and the United Stamp Company in both Weona Food Stores and By-Ryt Food Stores began operations in the city. All companies expanded operations in 1956, and by December almost four hundred fifty retailers vended stamps in Memphis.[33]

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[32]J. R. Mann, Vice President of the Quality Stamp Company, Personal Interview.

[33]Ibid.

Seeds of discontent were sown, however, as merchants without stamps felt the pressure of volume loss to retailers giving stamps. Non-stamp promotional plans, price cutting, and anti-stamp advertising failed to stop the trend in consumer preference for stores giving stamps. Anti-stamp interests then turned to the Tennessee legislators and succeeded in having a law passed in March, 1957, which would virtually prohibit stamp companies from operating in Tennessee after August 1, 1957.[34]

This law, which will be discussed in Chapter III, had its psychological effect. As the deadline approached, stamp companies lost account after account; and it was almost impossible to sell new accounts. While The Big Star Cash Food Stores, The National Food Stores, and The Kroger Companies Food Stores kept the promotion, By-Ryt Food Stores, Weona Food Stores, and Liberty Cash Food Stores discontinued stamps. The stamp companies also lost most of their "secondary" accounts. Consumers, fearing that stamp companies would go out of business, rushed to redemption centers. The Magnolia Stamp Company, apparently unable to redeem its stamps with merchandise, went bankrupt. The provision of the new law which exacted

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[34]Lee Winchester, Jr., Lawyer for the Plaintiffs, Personal Interview.

a 2 per cent tax on gross receipts of retailers vending stamps (see Appendix) was declared unconstitutional just a week before the deadline; but the damage to stamp operations was done.

After July, 1957, stamp interests steadily recovered from the effects of the proposed law. Delta Stamp Company moved operations to Arkansas to avoid paying the higher license tax, but United Stamp Company re-entered the market in the Liberty Cash Grocery Chain. The Sperry and Hutchinson Company sold the Texaco Oil Distributors on a plan for their retailers, whereby both distributors and station operators shared the cost of stamps. The Quality Stamp Company and Top Value Enterprises, Inc. acquired many stations of other brands from the competitive situation created by this alliance.[35]

As more and more gasoline stations adopted stamps, leading distributors advocated "a penny per gallon cheaper" policy for those stations without stamps. This one cent cheaper policy proved effective; so many stamp vending stations, particularly the Texaco Corporation, met price competition while continuing to give stamps. After bitter price wars in 1957, 1958, and 1959, distributors now advocate equal pricing for both stamp and non-stamp gasoline stations.[36]

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[35]Ibid.

[36]Ibid.

Stamps are as significant in Memphis today as they have ever been. Recent indications of stamp popularity show that, if anything, the promotion is spreading. The author did a study involving a sample of one hundred consumers in December, 1955, and found that 73 per cent of these one hundred saved stamps, and predicted that approximately 90 per cent of Memphis' families would be saving stamps at the peak of the promotion's popularity. In November, 1959, one hundred housewives were interviewed in the eastern section of the city in a study done for Malone and Hyde by the Psychological Service Center. Of the housewives interviewed, 89 per cent saved stamps, and 41 per cent saved more than one stamp. The Velsicol Corporation did a study in early 1960 to determine the popularity of stamps before adopting Quality Stamps. They concluded that over 80 per cent of the families of Memphis saved stamps. Both The Sperry and Hutchinson Company and Quality Stamp Company have recently (1960) sent circulars through the mails, with coupons good for six hundred free stamps attached (one hundred free stamps with a minimum purchase). Quality Stamp Company has increased its redemption centers from one to four within the last year and claims a net gain in accounts for the winter months (1960), the most difficult season for stamp selling. One of

Memphis' largest real estate firms is giving away thousands of free stamps with each new home, and stamps are even being used to promote new car sales.

In spite of the high degree of stamp activity in the city, there is still room for expansion in cleaners, drug stores, and department stores. Many cleaners seem to be enjoying increased business without stamp plans, and only three drug stores in the city have opposed the Memphis Retail Drug Association's recommendations and adopted stamps. So far, there are no department stores with accounts in the city. The question of whether stamps will utilize this expansion room available in categories other than supermarkets and gasoline stations remains. Stamp interests show great faith in the Memphis market by opening new redemption centers. Marketing conditions of competition and standardization, which have fostered stamp growth, have changed very little.

VII. A NEW LOOK AT THE STAMP CYCLE

One of the more important points of speculation about stamps in Memphis and throughout the nation is whether they will continue in popularity or fade from the competitive picture, as they have in the past. Both stamp interests, with their large monetary investments, and retailers whose profits are affected by the promotion, need information about stamp stability.

Denver has been a heavily stamped area since 1951 and has survived double and triple stamp wars. In 1959 stamps were still strong in Denver and in other cities which were filled with stamps by 1953. The theory that stamp popularity should be decreasing seems belied, as stamps are still gaining ground; 1959 surprised even stamp experts. The answer perhaps lies in the fact that through supermarkets, stamps have a strength that they have never had before. When families can redeem filled books for over $90.00 worth of merchandise per year, stamps become more than just a fad.[37] Other factors of stability include slowly increasing competition during prosperity, increased mobility, which allows stamp savers to change patronage more easily, and, finally, the increasing recognition of stamps as a legitimate, pragmatic promotion.

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[37] Ibid.

CHAPTER III

LEGAL DEVELOPMENTS

I. INTRODUCTION

The power of stamps to change the trading habits of consumers has always provoked strong opposition. Both merchants with stamps, who regarded them as a defensive measure, and merchants without stamps have sought means to restrict or abolish them. Usually a concerted legal effort was attempted by anti-stamp merchants after anti-stamp advertising campaigns had proven both expensive and ineffective. In practically every state stamp interests have fought this proposed legislation by contending that to restrain stamps is to restrict free competition unconstitutionally. This chapter contains a history and an explanation of this continuing legal struggle between the opposing factions.

II. LEGAL HISTORY UNTIL 1955

As far back as 1904, anti-stamp merchants in New York combined in a successful legal effort, and one of the earliest laws against trading stamps was passed. This law provided that: (1) stamps must have their redeemable value in lawful money legibly printed on their face, (2) the holder of the stamps was entitled to receive from the issuing company his choice of cash or merchandise, (3) the stamps must be redeemed if offered in lots worth five or more cents, and (4) certain coupons based upon a dual and not tripartate contract (the old style coupon had been both given and redeemed by the retail dealer himself) were exempt. "Judge Nash" declared the law unconstitutional, stating that: "It is the settled law of the state that it is not within the power of the legislature to suppress or regulate the issuing or sale of trading stamps."[1]

Although this was one of the first laws passed regulating stamps, many old laws, already in existence, were construed to apply. Congress had in 1873 made it a penal offense to engage in any gift enterprise in the District of Columbia, and the term gift enterprise included trading stamps. From 1887 to 1915 "statutes restricting, prohibiting, or licensing on the payment of fees the use of trading stamps" were passed. To give some idea of both the universality of trading stamps and stamp legislation before 1915, the following list of states which have passed laws prior to this time is presented.[2]

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[1] I. M. Rubinow, "Premiums in Retail Trade," Journal of Political Economy, 13:579-586, September, 1905.

[2] C. F. Duncan, "The Economics and Legality of Premium Giving," Journal of Political Economy, 24:935, December 16, 1916.

Alabama	Massachusetts	Pennsylvania
Arkansas	Minnesota	Rhode Island
California	Montana	Tennessee
Colorado	Nebraska	Utah
Florida	New Hampshire	Vermont
Georgia	Indiana	Virginia
Kentucky	New York	Washington
Louisiana	North Carolina	West Virginia
Maryland	Oregon	

The truth is that, although these laws were passed, nearly every one of them had been declared unconstitutional. Many of the state Supreme Courts followed the precedent of "People V. Gillson" in 1888, when the presiding judge declared a law regulating premiums to be discriminatory and that it "invaded, weakened, limited, or destroyed, fundamental and valuable rights." Other laws were declared unconstitutional for similar reasons.[3] In Oregon a law passed imposing a tax of 5 per cent on the vendor's gross receipts was declared class legislation and invalid.[4] The Kentucky Supreme Court in 1915 held that trading stamps were: "One way of discounting bills in consideration of immediate payment of cash, which is a common practice among merchants and is doubtless a popular method and advantageous to all concerned; and it is not obnoxious to public policy."[5]

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[3]*Ibid*., p. 939.

[4]"The Trading Stamp Stays in Oregon," *Sunset*, 35:852-853, November, 1915.

[5]Paul M. Sears, "Trading Stamps--Are They Good for Business? Who Pays for Them?," (Reprint from *New Mexico Business*, Bureau of Business Research, University of New Mexico, Alberquerque, New Mexico), p. 7.

By 1916 Washington D. C. had the only law prohibiting stamps; all the rest had failed to pass the State Supreme Court's test of constitutionality.[6] In less than a score of years, however, stamps had stimulated an impressive amount of legal action.

On March 6, 1916, the Supreme Court of the United States handed down three simultaneous decisions declaring state laws were valid which imposed a special license tax on stamps. This constituted, of course, a reversal of the majority opinion of the lower court decisions, which had held this type of law to be unconstitutional. The basis for the anti-stamp decisions were that stamps were of such questionable nature as a business practice that they might be prohibited directly or indirectly by the state in the exercise of police power. The courts' reasons for deciding that stamps were an undesirable business practice were: (1) stamps were not like other advertising because they did not draw attention to the article to be sold, (2) they were a "lure to improvidence," (3) they had the "seduction and evil" qualities of gambling.[7]

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[6]"Flank Movement on the Profit Sharing Coupon System," Current Opinion, 58:441, June, 1951.

[7]C. F. Duncan, op. cit., pp. 944-945.

In the three years following the "Trading Stamp Cases," retailers made maximum efforts to enact laws similar to those sanctioned by the Supreme Court.[8] In 1917, however, a group of premium-using manufacturers incorporated as the American Manufacturer's Premium Association, Inc., with Charles Wesley Dunn as general counsel. This organization, known later as the Premium Advertising Association of America, fought to keep premiums free from burdening legislation. The Supreme Court's decision, too, in spite of its implications, did not prevent the state courts from declaring anti-stamp legislation unconstitutional. In 1917, Utah levied a prohibitory fifty cents per one thousand (stamps) tax, and in 1921 the Utah Supreme Court ruled that this was undue discrimination and labeled it legislation designed to drive a successful competitor out of business. In California, a license tax charging merchants $200 per quarter was declared unconstitutional. New Hampshire in 1930 tried to control stamps by requiring a deposit on hand of $10,000, fees ranging from $250 to $1,000, and an excise tax amounting to 10 per cent of the value of the stamps. This law was declared unconstitutional

[8]Charles Wesley Dunn, "Premium Advertising and the Law," Printers Ink Monthly, December, 1934, pp. 42-43.

interference with the right to acquire and possess property. These are only a few examples of laws constantly being invalidated on the grounds of unconstitutionality.[9]

In 1932, Charles Wesley Dunn summarized stamp legal history. He stated that only five state courts (Kansas, Louisiana, Maryland, Washington, and Wisconsin) had decided that a law prohibiting stamps did not violate the state constitution, while eleven state courts decided that such a law was unconstitutional. The majority of the final decisions, therefore, held in favor of the stamp companies.[10]

In 1934, anti-stamp legislation was still on the statute books of the following states: Idaho, Kansas, Maryland, Montana, Nevada, Washington, and Wisconsin.[11] The Premium Advertising Association of America, which had contributed to the defeat of many anti-stamp bills, succeeded in obtaining the repeal of certain codes incorporated in the National Recovery Administration Act of June, 1933.[12]

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[9]Paul M. Sears, op. cit., pp. 10-12.

[10]Charles Wesley Dunn, "The Legal Status of Premium Advertising," Printers Ink Weekly, July 28, 1932, pp. 56-57.

[11]Charles Wesley Dunn, "Premium Advertising and the Law," op. cit., pp. 42-43.

[12]"Premiums Prosper," Business Week, May 6, 1939, p. 37.

The true situation was that only one law in 1934, Washington, D. C.'s, flatly prohibited stamps; the rest were "practically dead."[13]

From 1934 to 1941 more laws were passed, and emphasis was put on fair trade evasion. In 1939 a Pennsylvania Court decided that trading stamps did not violate the Pennsylvania Fair Trade Act; but in 1941, the Supreme Court of Wisconsin prohibited stamps on fair trade items. Wisconsin is thus one of the few states where stamp plans are legally limited on fair trade items.[14]

During the war, legislation was negligible because the premium business was suffering from defense cut-backs. After the war, competition renewed and with it legislation on stamps. In post-war 1948, these states had an annual tax on trading stamps:

Alabama:	Annual tax of 3 per cent on gross receipts, but not less than $1,000.
Kansas:	$4,000 to $7,000 county license tax (based on population).
Kentucky:	$350 annual license tax.
Maryland:	$1,500 annual tax.

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[13]Charles Wesley Dunn, 1934, loc. cit.

[14]Paul M. Sears, op. cit., p. 7.

Montana:	County license tax of $1,000.
Mississippi:	Annual tax of $250.
North Carolina:	Annual tax of $200.
North Dakota:	County license tax of $600.
Tennessee:	Annual tax of $200.
Wisconsin:	Prohibits trading stamps and coupons which are redeemable in merchandise. This was the status before the post-war "boom."[15]

In 1953 the situation had already changed. Maryland had a license fee of $500; North Dakota, Montana, and Kentucky no longer had restrictions on stamps.[16] The job of the pro-stamp organizations cannot be visualized, however, by such a comparison. In 1953, for instance, more proposed anti-stamp legislation was defeated than in any previous year; and the Premium Advertising Association of America was responsible for most of these defeats.[17]

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[15] Andrew Calvin Baird, "An Analysis of the Use of Premiums in Merchandising Grocery Store Products," Unpublished master's thesis, (Department of Marketing, University of Tennessee, 1950) pp. 59-60.

[16] Robert Blatt, "A Study of Retail Trading Stamp Plans," Unpublished master's thesis, (Department of Business Administration, University of Minnesota, 1954), p. 32.

[17] F. T. Dickson, "1953 May Be a Vital Year in Premium Legal Battle," Premium Practice, July, 1953, p. 30.

III. 1955, A KEY YEAR IN STAMP LEGAL HISTORY

In 1955, after an unsuccessful year in 1954, anti-stamp interests introduced fifty bills in twenty-four state legislatures. The Sperry and Hutchinson Company attributed this attack to a large national food chain (probably referring to Safeway Stores, Inc.). By July 8, 1955, forty-seven of these bills were killed; one was alive in committee, and two were passed. North Dakota passed a $1,000 license tax on stamps, but this bill was petitioned to referendum by 33,974 North Dakota citizens and defeated. In Utah a law became effective May 10, 1955, making it illegal for merchants to reduce prices by use of stamps. This law was contested with success by The Sperry and Hutchinson Company and three Utah merchants against the Utah Trade Commission. In Alabama, a license tax bill in committee in 1955 proved unsuccessful.

The following chart prepared by Advertising Age is presented to indicate the intensity of the legislative barrage and the success of stamp interests in 1955.[18]

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[18]"Mortality Rate of Anti-Stamp Bills Was High in 1955," Advertising Age, July 25, 1955, p. 60.

TABLE I

ANTI-TRADING STAMP LEGISLATION BOX SCORE
(As of July 8, 1955)

State	Escheat Bill	Prohibitive License Tax	Includes Stamp in Tax	Flat Prohibition	Bond Required	Gross Receipts Tax	Others
Alabama	—	Alive	—	—	Alive	—	—
Arkansas	Dead	—	—	—	Dead	—	Dead[1]
Arizona	—	—	—	—	—	—	Dead[2]
California	Dead	—	—	—	—	—	Dead[3]
Colorado	Dead	Dead	—	—	Dead	—	—
Florida	Dead§	—	—	—	—	—	—
Idaho	Dead	—	—	—	—	Dead	—
*Illinois	—	—	—	Dead	—	—	—
Iowa	—	—	—	—	—	Dead	—
Maryland	Dead	—	—	—	—	—	—
Minnesota	Dead	Dead	—	Dead	—	—	—
Montana	Dead	—	—	—	—	—	—
Nebraska	Dead	Dead	Dead	—	—	—	—
Nevada	Dead	—	—	—	—	Dead	—
New Mexico	Dead	Dead§	—	—	—	—	—
New York	Dead	—	—	—	—	—	Dead[4,5]
North Carolina	Dead	—	—	—	—	—	—
North Dakota	—	Passed	—	Dead	—	—	—
Oklahoma	—	Dead	—	—	—	—	Dead[6]
South Dakota	—	Dead	—	Dead	—	—	—
Tennessee	—	Dead	—	—	Dead	—	—
Texas	—	—	—	—	—	Dead	—
Utah	Dead	—	Passed	—	—	—	—
Wisconsin	—	—	—	Dead§	—	—	Dead[7]
Wyoming	—	Dead	—	Dead	—	—	—
Totals	15	11	2	7	3	4	5

* Only legislature not yet adjourned.

§ Two escheat bills dead in Florida; two prohibitive license tax bills dead in New Mexico, and two flat prohibition bills dead in Wisconsin.

1 Regulating size of stamps and coupons.

2 Prohibits giving anything of value with intent of injuring competitor.

3 Prohibits discounts or trading stamp signs at gasoline stations.

4 A bill requiring deposit with state of sums equivalent to sales of stamps.

5 Two bills requiring record of stamp savers and merchandise affected.

6 Resolution declaring trading stamps a type of monopoly in restraint of trade.

IV. LEGAL HISTORY AFTER 1955

In 1955 Lingan A. Warren, a strong opponent of trading stamps, resigned as president of Safeway Stores, Inc.[19] This and the success of stamp interests in fighting legislative attempts in 1955 perhaps had bearing on "the comparatively little anti-trading stamp legislation in 1956."[20] In 1957, however, nineteen states introduced bills to outlaw or restrict stamps. Seven bills proposed mandatory cash redemption; seven proposed heavy license fees, three the prevention of quantity discounts on stamp sales to merchants, three escheat, and four proposed straight prohibition.

Most of these proposed laws were defeated or declared unconstitutional. Kansas, however, who proposed a prohibitory law, succeeded in outlawing stamps.[21] In 1957 another victory--more important than the defeat of one bill--was won by stamp interests; Safeway Stores, Inc.,

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[19]"Trading Stamps Hit 550,000,000 in Volume in '58, Curtis Carlson Says," Advertising Age, August 24, 1959, p. 36.

[20]"Trading Stamps Come Under Fire of Tax-Hungry Legislators," Advertising Age, March 25, 1957, p. 86.

[21]Ibid.

reversed its policy of open hostility to trading stamps and adopted Gold Bond Stamps.[22]

In 1958 and 1959 stamp legislative attempts were negligible. Oregon proposed a tax of $60.00 on any retail business using stamps.[23] The Upjohn Company contested that trading stamps issued by Peoples Service Drug Stores in Maryland were an evasion of fair trade laws.[24] Connecticut proposed a cash redemption restriction on stamp companies.[25] New Jersey failed to collect 7.6 million dollars in an escheat case against the Sperry and Hutchinson Company.[26] Perhaps the most significant precedent was set when the United States Supreme Court ruled in an

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[22]"Trading Stamps Hit 550,000,000 in Volume in '58, Curtis Carlson Says," loc. cit.

[23]"Oregon Legislature Gets Anti-Stamp Bill; Crippling Says S & H," Advertising Age, April 13, 1957, p. 45.

[24]"Upjohn's War on Stamps Goes Back to Maryland Courts," Advertising Age, June 8, 1957, p. 3.

[25]"New Connecticut Law Regulates Stamp Companies," Advertising Age, June 8, 1959, p. 108.

[26]"Trenton - The State of New Jersey has Lost an Appeal in Its Escheat Case Against Sperry and Hutchinson," Advertising Age, July 27, 1959, p. 8.

8-0 decision that stamps could be regarded as a cash discount rather than a price discount in an Oklahoma dispute.[27]

Stamp interests are still fighting to clear up the few remaining areas where stamps are prohibited or severely restricted. Emerging from all the proposed legislation over the last hundred years are only two prohibitory laws. Washington, D. C. and Kansas are the only places where stamps are outlawed in the United States today.[28] Washington under an old law, and Kansas under the 1957 law. Washington State and Wisconsin specify stamps redeemable only for cash. Washington D. C.'s merchants are feeling pressure from merchants in neighboring Virginia and Maryland.[29] It is entirely possible that stamps will be in every major city unless a new constitutional, legal method to prohibit them is devised.

27"Supreme Court Backs Trading Stamps in Safeway Dispute," Advertising Age, July 6, 1959, p. 23.

28Eugene R. Beem, Economist for The Sperry and Hutchinson Company, Telephone Conversation.

29"Trading Stamps for Capital?", Advertising Age, August 24, 1959, p. 6.

V. LAWS TODAY

Opponents of stamps have typically chosen one of the below avenues of legislative attack:

Escheat Bills. The stamp company pays to the state trading stamp cash unredeemed by stamp holders. A company with 90 per cent cash redemption rate, for example, is liable to the state for the remaining 10 per cent.

Prohibitive License Tax. The stamp company is required to buy a license to operate in a particular state, county, or city.

Includes Stamp in Tax. The stamps themselves are taxed, $50.00 per one thousand, for example.

Flat Prohibition. The stamps are outlawed altogether with no reservations. These laws are difficult to pass and Washington, D. C. and Kansas are the only areas which have such laws.

Bond Required. The stamp company deposits a large initial sum with the state. Often counties and cities require bonds. The initial outlay may discourage a prospective company from entering the area.

Gross Receipts Tax. The stamp company pays a tax levied against gross receipts with no consideration of expense.

<u>Other Bills.</u> (1) To regulate the physical size of stamps, (2) to ban stamps at gas stations, (3) to declare stamps a price reduction instead of a discount (stamps would then be outlawed on fair trade items), (4) to require names and addresses of all customers, and (5) to require cash redemption have been attempted in the past.

VI. TENNESSEE LEGAL HISTORY

Tennessee has maintained a county privilege tax of $300 on trading stamp companies since 1937.[30] This tax, which was doubled in 1957, has never been prohibitive for the larger stamp companies and serves to eliminate "fly-by-night" companies from entering the market on insufficient capital. Because the tax was not prohibitory for the large companies, it did not stop legislative attempts to outlaw stamps in Tennessee.

In 1955 House Bill Number 662 "to regulate the sale and/or distribution of trading stamp premium coupons and other such devices" was defeated. The bill made mandatory: (1) the posting of bond of $25,000 by the stamps dealers and $1,000 for each retail vendor, (2) complicated reports

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[30]James Winchester, Attorney, Personal Interview.

to be filed with the Commissioner of Finance and Taxation by both dealer and vendor, (3) a license fee of $500 to be paid by dealers and a fee of $50 to be paid by vendor (per annum), and (4) punishment of violators by strict fines.[31]

This bill, if passed, would have been a serious defeat for stamp interests in Tennessee.

Anti-stamp interests learned by the defeat of the 1955 bill that special effort would be needed if a bill was to pass the legislature. Late in 1956 a special effort was made. A noted Memphis lawyer, Lee Winchester, Jr., was hired, and very quietly the strategy was mapped. Many merchants contributed money, and many promised to testify against stamps.[32]

Stamp interests were not fully aware of the detailed preparations of the plaintiffs.[33] Anti-stamp advertising campaigns appeared in the newspapers and merchants appeared in the legislature, testifying that stamps had seriously hurt their businesses. The profits of the stamp companies

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[31] House Bill 662, a typewritten copy on file in Mrs. Lorena Abbot's office.

[32] Lee Winchester, Jr., Personal Interview, December, 1959.

[33] J. R. Mann, Vice President of Quality Stamp Co., Personal Interview.

were brought out also in these February, 1957, hearings. Mr. Winchester commented that stamp company officials admitted that they made unusually high profits.[34] It was brought out, too, that while small appliance dealers and other retail outlets had to pay a privilege tax, stamp interests were competing exempt from that expense, and, therefore, had an unfair competitive advantage. To prove that consumers were paying more at stamp giving stores, special shoppers were hired who bought baskets of groceries in stamp and non-stamp stores. These baskets were wheeled in at hearings in the legislature complete with groceries and itemized price lists illustrating that stamp stores were higher.[35]

Stamp interests, meanwhile, were protesting that the proposed law, as stated, was an unconstitutional effort to drive a successful and legitimate operation out of business (especially referring to the 2 per cent proposed tax on the gross receipts of retail vendors.) This stand was widely advertised, and the campaign was so successful that supposedly irate housewives marched on the capitol and picketed the quarters of Mr. Winchester.[36]

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[34] Lee Winchester, Jr., *loc. cit.*

[35] *Ibid.*

[36] *Ibid.*

The vote taken in March, however, with anti-stamp leaders sitting with the legislators, reflected the well-planned legal attack of the plaintiffs. The Senate voted 28-2 in support of the bill and the House 85-5. During the public hearing, one hundred thirty lawyers had scrutinized the bill.[37] On August 1, 1957, the bill, which increased the county tax and demanded a prohibitive tax (2 per cent on gross sales), was to become law. This proposed law is stated in its entirety in Appendix I.

The bill was passed now, but the fight by stamp interests was just begun. More money was poured into expensive advertising campaigns, while the plaintiffs' grocery baskets remained deep-frozen. When Mr. Winchester again went to Nashville to defend the constitutionality of the bill, he was rebutted by The Sperry and Hutchinson Company's ablest lawyers, who were ready with briefcases full of legislative decisions against the constitutionality of similar anti-stamp legislation.

Mr. Winchester's defense of the bill was not sufficient in the light of the overwhelming majority of decisions of the state courts and the United States Supreme Court. Stamp lawyers succeeded in convincing the court that

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[37] Tennessee Decisions, 37:304-308, 1958.

Section B of the bill was legislation designed to drive a successful competitor out of business and an improper exercise of the police powers.[38] Three important points were made explaining the decision that the bill was unconstitutional: (1) The court could not distinguish any real or substantial difference between a merchant who uses stamps and redeems his own stamps and a merchant who uses stamps and for a consideration has someone else to redeem them for him. This distinction was considered "arbitrary, capricious, and unreasonable" and in violation of Article XI, Section 8, of the Tennessee Constitution, which forbids class legislation unless there be some reason for the discrimination. (2) The precedent of other courts had decided the question with an unanimity of opinion. A case in 1919 was the last and one of the few such cases that had been decided against stamps (at the time of this decision). (3) The argument that public welfare and morals did not suffer under a store plan while it did suffer under a company plan seemed contrary to fact, because public welfare was "better served" by a company plan than a merchant plan.[39]

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[38] Ibid.

[39] Ibid.

In less than a week before the bill was to become law, it was declared unconstitutional. This decision in Tennessee reflects to a marked degree the history of stamp legislation in the United States.

CHAPTER IV

OPERATIONS

I. INTRODUCTION

Stamp companies, all of which have one factor in common--the redeemable stamp coupon--fall into several categories by ownership: the independently owned company, the store owned company, and the company co-operatively owned by a group of retailers. The Sperry and Hutchinson Company exemplifies the independently owned company. By redeeming the filled books at their own redemption center and providing other necessary promotional services, The Sperry and Hutchinson Company relieves the retailer of practically all responsibility except distribution of the stamps. The number of retailers that can be encompassed by such a plan is limited only by exclusive agency agreements. The store owned company came into prominence when supermarkets entered the picture. The Kroger Company bought interest in Top Value Enterprises, Inc., and Malone and Hyde, Inc., wholesale grocers, purchased Quality Stamp Company. The Eagle Stamp Company of St. Louis works in close cooperation with the Famous Barr Store of that city; Famous Barr, in fact, redeems Eagle Stamps in their own merchandise. Often several stores in an area cooperatively assume ownership responsibilities by combining to print their own stamps, offering them to their customers, and redeeming them. Expenses, responsibilities, and profits are shared. Such a plan is known as a cooperative plan.[1]

In this chapter these plans will be explained by examples. Organization of a stamp company will be described from the viewpoint of a typical independent to maintain simplicity, but application of the principles discussed apply to all ownership groups.

II. ORGANIZATION OF A TYPICAL STAMP COMPANY

Capital, knowledge, and a willingness to accept great risk are required to organize a stamp company. Unless sufficient funds are invested, the company may from inception be characterized by low standards of appearance and operation, and progressive merchants may adopt a superior plan. Primarily, there must be enough capital to provide for an operating plant. Ordinarily, the same building may serve both as general office and redemption center, but this center should be located in

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[1]Ralph Leviton, "Stamp Plans Thrive in Nationwide Boom," Retailing Daily, June 14, 1955, p. 1.

an easily accessible place, preferably a high rent district. The center should have all the features of an attractive modern store. Space should be provided for display, storage of bulk-bought premiums, accounting, and an attractive office to interview prospective accounts. Premiums may be bought wholesale, but they should be nationally advertised merchandise of highest quality. Good salesmen must be hired because selling stamps is selling intangibles. Connected with stamps, too, is advertising expense; unless stamps are well advertised, they seldom succeed. This includes stickers, signs, catalogues (some of which cost twenty-five cents apiece), redemption books, the stamps themselves, and numerous other tangible devices. Some states have heavy taxes and license fees. Expense, of course, varies with methods of operation and local legislation.

In addition to expense and shrewd business and selling knowledge, the element of risk must be considered. An examination of history indicates that stamps are not a stable business. Competition for the retail vendor's favor is strong, and poor selling techniques, rival stamps, alternative plans, legislation, and successful opposition can cut profits or force discontinuance of operations altogether. Stamp companies must expect a high redemption rate from the first. Progressive stamp companies realize that a high redemption rate indicates consumer interest. The Quality Stamp Company and The Sperry and Hutchinson Company claim redemption rates over 90 per cent, while The Eagle Stamp Company of St. Louis claims past rates as high as 98.5 per cent.[2] Today, as most cities in the United States are in a mature stamp market, it is difficult for an outsider to enter unless in a large chain operation. Changing business conditions, a waning of consumer interest, and a deluge of cash-ins at the redemption center must be considered in calculating risk.

III. SELLING PROCEDURE AND MERCHANT CONTACT

After operating plant becomes a reality and accounting and technical difficulties are overcome, the framework for a stamp nucleus must be established. The supermarket chain is the best foundation for a stamp operation, and a large department store is second best. The reason for this becomes apparent when it is realized that the average consumer spends between 30 and 35 per cent of the earned dollar for food.[3] Once this main structure is set, then

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[2] S. L. Wisebart, President of Eagle Stamp Company of St. Louis, Personal Interview.

[3] Lorena Abbot, Executive Secretary of the Memphis Retail Grocers Association, Personal Interview.

smaller gasoline stations, drug stores, laundries, furniture, hardware stores, and florists can be added in the same area. (Quality Stamp Company in Memphis has the account of the largest tombstone manufacturer in the United States.)

The more non-competitive merchants in a stamp plan, the more effective the promotion. The stamp company with the most accounts in an area, other factors being equal, has a competitive advantage because consumers are naturally prone to save the type stamp obtainable at the most places. For this reason and because of their narrow profit margin, large chains can buy stamps at a considerable amount of discount. In Memphis, Quality Stamp Company started with the Big Star Cash Food Stores chain. Now Malone and Hyde, Inc., who represent the Big Star Cash Food Stores, own total interest in Quality Stamp Company. Top Value Enterprises, Inc. entered the market in The Kroger Companies Stores. The failure of many small companies is due to their initial lack of sufficient chain structure.

The best method of forming a stamp nucleus in a city or a small town is to sell a food outlet first, then the "side accounts." Sales presentations are generally positive in approach. The main purpose of a stamp program is to increase volume. The stamp salesman must convince the retailer that with the program he can secure enough increased volume to spread overhead costs and more than pay for the cost of the stamps through increased gross margin. (This break-even point is different for each retailer.) If profit margins are lower, a larger increase in volume is needed to reach the break-even point. An average drug store, for instance, needs a 7 per cent volume increase if stamps cost 2.5 per cent of gross sales; gross margin is 34 per cent, and operating expenses and margin are constant. A gasoline station with a 25 per cent gross margin would need a 12 per cent volume increase.[4] If the retailer is near a supermarket giving the salesman's brand of stamps or is on a main traffic artery, the salesman stresses these advantages. The fact that the retailer may lose his opportunity to buy the company's stamps should the salesman sell a neighboring competitor (Exclusive Agency Agreement) is seldom mentioned unless the positive approach fails.

The stamp contract includes the conditions of sale and usually contains:

1. Time Period - Vendor agrees to vend stamps for a period of time (usually a year) without dropping. (This is not enforced.)

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[4]Harvey L. Vredenburg, Trading Stamps, (Bloomington: Bureau of Business Research, Indiana University, 1958), p. 19.

2. <u>Price Agreement</u> - Varies with the plan.

3. <u>Provisions Allowing Vendor to Stamp His Bill</u> - (If paid by the 10th of the month X stamps will be issued.)

4. <u>Provision for Multiple Stamps</u> - This provision states requirement for dealer's permission before more than one stamp per ten cent purchase can be issued.

5. <u>Exclusive Agency Agreement</u> - The dealer agrees not to contract with the vendor's nearest competitors.

6. <u>Advertising Agreements</u> - (Vendor agrees to mention stamps in advertisements. Dealer Agrees to provide initial advertising, advertise over radio, television, etc. Ownership of advertising material usually remains with the dealer.)[5]

Dealers furnish certain services besides the stamps. Identification signs, streamers, window stickers, and other points of purchase advertising material are usually installed the day stamps are first issued by the vendor. Form introductory letters, advertising mats, catalogues, and stamp redemption books can be printed in quantity for the dealer, so he furnishes these also. Below is a sample introductory letter:

> It is with great pleasure we announce the giving of the famous ABC Stamps with all purchases made at our store, located at 121 Elm Street.

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[5] Sample Contract of Top Value Enterprises, Inc.

These stamps are given to you at our store on all purchases made in cash, and on all charge accounts when payments are made in the regular manner; that is, payments made to us on or before the tenth (10th) day of each month.

These stamps are very valuable. We have free catalogs of the world's finest gifts for you....more than five hundred of the finest jewelry, watches, household items, silverware; and these items are all given to you for filled books of ABC stamps.

We have a franchise on this service and are proud to offer it to you.

Come in at your earliest convenience, get your free catalogs, unless you have one from supermarkets or other firms. We will give you totally free your stamps on cash purchases, and we will hold your stamps here at our office for you if you make your payments due by mail. Come in any time and get them.

Visit the redemption stores of the stamp company; save your stamps from us, the other types of businesses, and thanks for YOUR trade!

We are now investing in you....the customer.[6]

The Quality Stamp Company and Top Value Enterprises, Inc. both require merchants to mention their stamps in their newspaper advertisements. Most stamp companies advertise over television; The Sperry and Hutchinson Company advertises in the national magazines. Some stamp

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[6]Sample form letter of Quality Stamp Company to consumer.

companies offer merchandising advice and even furnish financial aid to their accounts.[7] Unless the promotion is a success the dealer stands to lose.

Each vendor is instructed to push the stamps. Experience has proved that the best method is to give stamps to all customers who do not directly refuse them. The idea is to establish the premium goal in the consumer's mind; this is conducive to repeat patronage. Although stamp companies stress that a retailer must push the program, many ask the customer if he saves stamps, while others comply by putting stamps on the counter with the change, putting stamps directly in the customer's hand, or placing the stamps in the bag with the merchandise.

The dealer normally sells stamps by the pad to realize his gross sales or income. If the vendor pays $3.60 for enough stamps to fill the consumer's book, the wholesale premium for this book costs $2.50 and other dealer expenses amount to $.50, then profit before taxes is $.60. This is on the assumption that all stamps will be redeemed. Destroyed or otherwise unredeemed stamps constitute extra profit to the dealer.

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[7]S. L. Wisebart, Interview, loc. cit.

To the vendor the price of stamps can amount to 3 per cent, if stamps are bought at $3.00 per thousand and one is given with every ten cent purchase. Stamps, however, are not distributed on odd cents (four stamps are given for forty-nine cent purchase and none on tax). Some customers refuse stamps, and if the retailer buys in quantity, he may receive a discount from the dealer. Below are typical stamp discount plans:

The Quality Stamp Company (10,000 per pad)

$30.00 - 1-4 Pads
28.00 - 5-9 Pads
27.00 - 10-14 Pads
25.00 - 15 Pads
24.00 - 50 Pads

Big Star Cash Food Stores, which buy in quantity, pay less.[8]

Top Value Enterprises, Inc. (5,000 per pad) - Same as The Quality Stamp Company for same mumber of stamps.[9]

The Kroger Company, which buys in quantity, pays less.

The price of stamps usually runs between 2 and 3 per cent of gross sales.

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[8]J. R. Mann, Vice President of Quality Stamp Company, Personal Interview.

[9]George Williams, Sales Manager, Memphis Branch, Top Value Enterprises, Inc., Personal Interview.

IV. CONSUMER CONTACT

The consumer initially should receive three articles from the vendor--a catalogue, a stamp redemption book, and the stamps to which he is entitled for his purchase. Regardless of the manner by which the retailer distributes the stamps, the consumer should be educated in the fundamentals of stamp saving. The Quality Stamp Company requires that the saver paste $120.00 worth (merchandise value) or twelve hundred stamps in the redemption book; Top Value Enterprises Inc. require $150.00 worth (merchandise value), and The Sperry and Hutchinson Company requires $120.00 worth of trade to fill a book. Thus, it would take the consumer a longer length of time, other things equal, to fill a Top Value book; but premium value per filled book is higher. When the book is completely filled, the holder has the option of redeeming it for a small premium or waiting until more books are filled. Quality Stamp Company claims that a wise shopper could fill two and one half books per month. One farmer reported that he bought enough gasoline alone to fill three books per month. When a sufficient number of books are filled to get the intended premium, the saver must either (1) go to the premium center or (2) mail in the books with provision for postage. The center has a great influence on the saver. If it is attractive and he is treated pleasantly, he may have a favorable attitude toward saving the stamp again. Premiums, too, make a great deal of difference. Most stamp officials agree that a wide selection of durable, high quality merchandise makes the best premiums. The premium itself is a form of advertising. If it is satisfactory, lives up to the saver's expectation, and lasts, it may serve as a constant reminder of what was obtained by saving the stamps.[10] Churches, clubs, and other group organizations can obtain such articles as organs and station wagons by pooled stamp saving of members. People also swap stamps. Quality Stamp Company will redeem only Quality Stamps, but if a Quality Stamp saver should obtain Top Value Stamps, he can swap Top Value Stamps to his Top Value saving neighbor and obtain Quality Stamps.

After the books are redeemed, the serial numbers on the stamps are checked. This practice enables the dealer to know (1) the time the stamps were given to the vendor, (2) which vendor issued the stamps, (3) that the stamps

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[10]Ralph Leviton, "Premium Gains Aid Producers," Retailing Daily, June 16, 1955.

were not counterfeited or stolen. (The Eagle Stamp Company began printing the value on their stamps when they discovered that counterfeiters could not be prosecuted without the precaution.)[11]

V. ALTERNATIVE PLANS

What defensive measures are merchants likely to instigate when they find volume dropping and trade being lost to their neighbor who vends stamps? The natural alternatives are to adopt a rival stamp plan or to lower prices. There are, however, alternative plans similar to stamps, which in some localities have been effective promotions. Below is a discussion of the more popular plans.

Cash Tape. To follow this plan, the customer simply saves his cash register receipt tapes. Instead of pasting stamps in a book, the customer may put the tapes in a box and clip them together before redemption. The cash tickets are brought to the store and redeemed for other merchandise or cash. Montesi Food Stores in Memphis used the cash tape church plan. The store managers agreed to donate an amount equal to 1 per cent of the total purchases (on the tapes) to the church whose members pooled their receipts. Some

[11] S. L. Wisebart, Interview, *loc. cit.*

merchants redeem in merchandise. On a 2 per cent system, merchandise bought wholesale costs the retailer about 1 1/2 per cent instead of 2 per cent. Often expensive catalogues are issued, and only a few items of the store are redeemable for the tapes. More often, all items in the store serve as an obvious catalogue, and the customer has his choice of premiums. Unfortunately, these plans are seldom as effective as stamps and can be counterfeited more easily.

Bonus Day Plan. Closely allied to the cash tape plan is the bonus day arrangement. The merchant declares the day of lowest volume for the month "bonus day." He agrees to give customers who have saved tapes marked this day an amount of merchandise equal to the total of the tape. The obvious advantage of the plan is that it boosts low volume days and stabilizes business.

Indirect Giveaways. Merchants may use cars, electric appliances, $1,000 bills, and other large inducement to draw the consumer. The customer registers for the premium, and on a certain day the winner is chosen. The disadvantage of the plan is that only one person can win, the others must be disappointed. The cost of such a promotion may be well above its drawing power.

Other. Small premiums may be given for purchases over a certain amount (a steak knife for a $5.00 purchase or a dish for every $2.50 purchase). Articles are usually offered in sets so that repeat business is drawn by the wish of consumers to complete the set. Self-liquidating premiums are designed to cost the merchant no extra money; the premium is offered at wholesale value if the customer purchases a certain amount of merchandise.[12] The merchant has a wide selection of coupon plans to choose from, juvenile offers, contests, trade cards (similar to stamps), party plans, club plans, and many others;[13] but even extensive advertising and lower prices cannot deter the determined stamp saver from saving stamps.

VI. ATYPICAL STAMP PLANS

Some plans deviate from typical operating procedure; a few exemplary plans are noted below, denoting these differences.

The Eagle Stamp Company of St. Louis. With the Eagle Stamp Plan, one stamp is given for every ten cent purchase, 1,250 stamps are required to fill a book; and stamps are sold by the pad. More than twenty-five years

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[12]"Three Basic Premium Plans Widely Used by Food Stores," *Progressive Grocer*, October, 1953, p. 41.

[13]"20 Premium Plans for Sales," *Premium Practice*, (special publication,) 1955, p. 1.

ago, however, The Eagle Stamp Company discovered that people preferred to redeem stamps at the vendor's store. This was proved by giving the saver an option of redeeming for premiums at the center or redeeming for the vendor's merchandise; few people, indeed, chose the center. Redeeming in the store (1) gave a wide selection of necessities (food, for instance), (2) helped tide the company through war when premiums were difficult to obtain, (3) was a convenience to the saver. The Eagle Stamp Company, of course, reimburses the vendor for each book he redeems. The Eagle Stamp Company gives $2.25 cash redemption of $2.50 in merchandise. For the service the vendor pays an initial franchise fee of $25.00 and $2.50 per 1,000 stamps. Out of this $2.50, The Eagle Stamp Company holds $1.80 in reserve to redeem premiums and keeps the $.70 residue as a service charge.[14]

Perhaps the most interesting part of The Eagle Stamp Company's whole system is the vending procedure at Famous Barr Store. Coupons are given for cash payments and charge account "pay ups." These coupons are then taken to the stamp vending departments on the main floor. Here modern

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[14]"Explanation of The Eagle Stamp Plan," (Typed explanation for salesmen's kit), Eagle Stamp Co., 322 North Twelfth Street, St. Louis, Missouri.

machinery dispenses the stamps in sheets. Mr. S. L. Wisebart, President, likes to think of his company as being as reliable as a good bank, and the stamp distribution centers look like teller's cages. When the stamps are brought in they are checked in at stamp receiving stations where coupons, good for any merchandise in the store, are issued. Manufacturers also have an arrangement with Eagle Stamp Company whereby stamps are given for labels or identification from their packages. Long experience and maturity have ingrained the Eagle plan in St. Louis as an ethical institution.[15]

Four Star. Sears initiated its Four Star Stamp Plan in Galesburg, Illinois, as a test. The merchants paid $6.75 a thousand for the stamps, and consumers were given stamps with every twenty-five cent purchase. The stamps could be redeemed (two cents to the dollar) for either cash, merchandise at the Sears Galesburg Store, or anything in the Sears catalogue. Actual cost of the plan approximated the cost of the ten cent plans. To facilitate handling, vending machines punched cards containing forty stamps for a $10.00 purchase, twenty stamps for $5.00,

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[15] S. L. Wisebart, Interview, *loc. cit.*

and four for $1.00. A housewife could cash in stamps for merchandise if she had two hundred of them or $1.00 worth. This plan was not satisfactory, and Sears discontinued it in Fall, 1955.

The Red and White Stamp Plan. The Red and White Plan is guaranteed to cost the retailer 1.5 per cent, or less, of sales. The stamps are given free to the vendor in pads of 5,000. One stamp is distributed with every dollar's worth of merchandise. The retailer redeems stamps in his own merchandise when the customer has filled a stamp card with one hundred stamps. The premium costs the retailer 1.5 per cent if all stamps are redeemed, about 1 per cent if 60 per cent are redeemed. The plan is a wholesaler sponsored promotion.[16]

The Community Stamp Plan. Community is a cooperative plan organized by nine of Lincoln, Nebraska's, leading retailers. Community has two outstanding features: (1) The parent company was organized on a community-wide, non-profit basis, (2) The stamps may be redeemed for cash or for any item of merchandise, stocked by any of the

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[16]"Red and White Offers Dealer 1.5% Stamp Plan," Supermarket News, October 3, 1955, p. 8.

participating concerns. The plan is significant because it offers a working model to retailers interested in keeping stamp profits within their cooperative group.[17]

The Lablow Coupon Plan. The Lablow Chain Food Stores had a coupon plan. With every $.50 purchase the consumer was entitled to buy one five cent premium certificate. By using the plan the customer could obtain articles at approximately half price. The plan was practically self-liquidating, and customers responded at first.[18] Lablow Chain Food Stores, Inc. has since adopted stamps.

The Liberty and Site Stamp Plans. The Liberty and Site Stamp Plans are practically identical in operation. The customer is given one stamp for every twenty-five cent purchase. When the customer has a book or one hundred stamps, he can choose a premium from a colorful catalogue or save a number of books for a more valuable prize. The station attendant accepts the redemption book complete with name and address of stamp saver and sends it to headquarters. The premium is sent directly to the home of the customer.

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[17]"Community Stamp Plan," Premium Practice, May, 1954, p. 135.

[18]Ralph Leviton, "How Lablow's P. C. Plan Works," Retailing Daily, June 16, 1955, p. 1.

<u>The Spur Company Stamp Plan.</u> Spur gives one coupon for each gallon of gasoline. Premiums are displayed at the gasoline station with coupon "price" (designated by number of coupons required) marked on each item. Customer may exchange coupons at the station and immediately receive the desired premium.

Many chains, such as Safeway Stores, Inc., Lablow Chain Food Stores, and The Kroger Company, who once used promotional plans and huge financial resources to fight stamps, have since adopted them. These reverses in policy indicate the relative effectiveness of stamps to most alternative promotional plans.

CHAPTER V

EXTRA STAMPING IN MEMPHIS

I. INTRODUCTION

Nearly all stamp companies have a provision in their contracts with the retailer which specifies the number of stamps to be given the consumer in relation to the amount of his purchase. In Memphis all stamp companies have established a ratio of one stamp for every ten cents worth of goods purchased. To give more or less stamps than this without authorization of stamp company officials is in most cases a violation of the contract. Extra stamping, then, is the practice of giving more stamps to consumers than the ratio established in the contract between the stamp company and the retail vendor.

Extra stamping was not an important issue in Memphis before 1959, when the big grocery chains with stamps began placing extra stamp coupons in their newspaper advertisements. Many food brokers and salesmen, seeing the tremendous response to the coupons, began supporting the extra stamps to induce the grocers to coupon their (the manufacturers') particular item in the newspaper. The practice of extra stamping took hold and grew. The question of which grocers will vend stamps is decided for the present, so most managerial decisions on stamps today in the food field concern the proper manipulation of the promotion to maximize profits, specifically, the use of extra stamps.

In spite of the increasing importance of extra stamping in Memphis and in other parts of the country, very limited information was available to answer the questions of retail grocers, distribution point officials, and food manufacturers, who wanted to know more about the power of extra stamps to move merchandise, how to use extra stamps more effectively, and the implications of extra stamps to food retailing.

Douglas J. Dalrymple, of the Department of Agricultural Economics, Cornell University, has concluded a controlled study on the effects of extra stamping on the sale of frozen cherries. He concluded that fifty extra stamps on a forty-three cent can of frozen cherries increased sales about ten times without newspaper advertising or eighteen times with newspaper advertising.[1]

Douglas J. Dalrymple's valuable study illustrates the power of extra stamping to move a specific item (cherries), but it is too limited in scope to provide an understanding

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[1]Douglas J. Dalrymple, <u>The Effect of Trading Stamps on the Sale of Frozen Cherries,</u> Paper No. 10, (Ithaca: The Department of Agricultural Economics, Cornell University, November, 1959) pp. 1-3.

of the many variables involved in extra stamping in food retailing. A more comprehensive study was needed to answer general questions on extra stamping. Interviews with retail and wholesale grocers were conducted to measure the effectiveness of extra stamping in food retailing in Memphis and to furnish useful information for managerial decisions on this increasingly important competitive use of stamps. These interviews, besides providing opinions and current practices, have uncovered quantitative data and new issues.

II. METHODS OF PROCEDURE AND SOURCES OF DATA

Grocery wholesalers have contributed both general information and ratios of movement on different extra stamped products. Preliminary interviews indicated that sales of specific products promoted by extra stamping at retail decidedly increased wholesale sales when the promotion was featured in all stores of the wholesale sponsored retail chain. To estimate the influence of extra stamps is moving products at wholesale, it was necessary to compare the average (or expected) sales of the product without extra stamps to the wholesale sales of the product during retail extra stamping. The products to be investigated were taken from grocery chain advertisements in the newspapers. Weekly wholesale stock records of these products (in case lots) were then examined and sales averaged for each product for five weeks before the promotion started and five weeks following the promotion. The "average" (expected) weekly sales before stamps were compared to the sales of that product during extra stamping to determine the influence of extra stamps in increasing sales of the product. The average weekly sales after extra stamping were compared again to the sales during extra stamping to determine the lasting effects of the promotion. Although information on every product listed was unobtainable, a representative group of these comparisons has been included in tables in this chapter.

Retailers were interviewed personally by the investigator to gather all available information on extra stamps from that source. A special effort was made to uncover quantitative data on procedures and product sales with extra stamps. The questionnaire used as a basis for these interviews is Appendix B, but the indications of this sampling are given in this chapter.

The universe for this sampling included the sixty-six stamp vending food store managers in Memphis. The universe and the number of managers in the universe vending each particular type of stamp was determined by checking the listings of the chain groceries involved in the Memphis telephone directory against either wholesaler lists or newspaper advertisement lists of stores. Since the sample constituted 66.7 per cent of the universe and the four groups of store managers comprised the entire universe, a proportionate representation of each group was obtained by randomly selecting 66.7 per cent of each group (rounding number to be selected from each group off to a whole number). This procedure stratified the sample as to stamp vended and provided a means of selecting two other variables which could influence answers the location and the size of the store managed, randomly.

Addresses of stores selected were recorded on the questionnaires to find the store and to ascertain whether the store was located on a main traffic artery, was in a shopping center, or in a less heavily trafficked area. The number of check-out counters in the store was the measure determining the size of the store; under three check-out counters constituted a small store; three to six constituted a medium store, and seven and above constituted a large store for purposes of this investigation.

III. THE EFFECTS OF EXTRA STAMPING

Movement of Merchandise

All wholesalers and retailers interviewed agreed that extra stamping was an effective promotion for increasing sales. Its acceptance in Memphis is shown by the facts that all four stamp vending grocery chains are using it in their newspaper advertisements, and that 100 per cent of the grocers thought that the results of extra stamping had been "satisfactory." Thirty-six out of the forty-four retailers interviewed had been using extra stamping independently, primarily to sell specific items of inventory. Perhaps the most significant endorsement of extra stamping was expressed in the answer to a question involving the proposed introduction of a new food product through grocery stores. Thirty-six out of the forty-four grocers (approximately 82 per cent) expressed the opinion that a fifty extra stamp coupon would be more effective than a price reduction coupon equal the cost of the fifty extra stamps to the grocer. Out of these thirty-six grocers, twenty-nine stated in ratio form how much more effective they felt the fifty extra stamp coupons were over the price reductions. These ratios, when averaged, indicated that these twenty-nine grocers (taken together) were of the opinion that extra stamp coupons were 2.4 times as effective as the price reduction coupons. Store managers were asked to use ratio comparisons in estimating the potential of a fifty extra stamp newspaper coupon in moving "an average item." These ratios, when averaged, indicated that the grocers (taken together) were of the opinion that a fifty extra stamp coupon would increase sales of the "average product" to 1,240 per cent of sales of that product expected without the extra stamps. This is a conservative estimate when compared with wholesale ratios of movement. The tables on the following four pages indicate the potential of extra stamping in Memphis, as estimated by the retail grocers interviewed.

Wholesale grocers and distribution point officials were also enthusiastic about the potential of extra stamping for increased sales. (Profit margins are low in the wholesale grocery field, and volume of business is especially important.) The figures obtained from wholesalers are considered more accurate than those obtained from interviews with retail grocers. The two wholesalers with more distribution and the more powerful stamps increased movement on the extra stamped items investigated an average of 3,135 per cent. Another wholesaler with less distribution increased movement only 1,688 per cent.

TABLE II

NUMBER OF RETAIL GROCERS WHO EXTRA STAMPED ITEMS IN ADDITION TO THOSE APPEARING IN THEIR CHAINS NEWSPAPER ADS

	Did Extra Stamp	Did Not Extra Stamp
Number	36	8
Per Cent	82%	18%

TABLE III

NUMBER OF GROCERS WHO THOUGHT THE RESULTS OF EXTRA STAMPING HAD BEEN SATISFACTORY

	Satisfactory	Unsatisfactory
Number	44	0
Per Cent	100	0

TABLE IV

NUMBER OF GROCERS WHO FAVORED THE INTRODUCTION OF A NEW FOOD PRODUCT, A 50 CENT SELLER, BY NEWSPAPER COUPON WORTH 50 EXTRA STAMPS RATHER THAN A NEWSPAPER COUPON WORTH 11 CENTS TOWARD PURCHASE OF THE NEW PRODUCT

	Coupon Worth 50 Extra Stamps	Coupon Worth 11¢
Number	36	8
Per Cent	82%	18%

TABLE V

ESTIMATED MERCHANDISE MOVEMENT CAUSED BY 50 EXTRA STAMP COUPONS IN NEWSPAPER EXPRESSED IN PER CENT OF AVERAGE WEEKLY SALES AS ESTIMATED ON AVERAGE ITEM BY RETAIL GROCERS INTERVIEWED

	Less than 500	500-999	1000-1999	2000-2999	3000 and Over
Number	6	10	14	10	4
Per Cent	13	23	32	23	9

Lower volume, less stamp distribution, and the fact that this wholesale firm couponed all of the products investigated during the same week are believed to account for the lower percentage increase. Increased competition among the extra stamped items themselves lower sales on the individual extra stamped items.

One of the cities' leading retail grocers, Mr. Thomas Dunn, who manages four large Pic Pac markets giving Quality Stamps and doing heavy volume, was impressed with the promotional elasticity of stamps in his stores. He estimated increased sales on thirty-two items by comparing his written records on coupons received and his store managers' estimate of his usual or average weekly sales before couponing the items.[2] These comparisons indicated that extra stamping would increase sales an estimated amount of 3,160 per cent per product. (See Table IX) Mr. Dunn has made a practice of couponing high mark-up, usually slow moving items, in his advertisements, and this, perhaps, accounts in part for the large percentage increase. Sales of certain products increased over seventy fold when extra stamped, according to these estimates.

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[2]Thomas Dunn, Co-Owner and Manager of Pic Pac Food Stores, Memphis, Tennessee, Personal Interview.

Although the retail and wholesale figures given in the preceding paragraphs and tables are estimates based on the best information available, the strong indication is that extra stamps can do a tremendous job of moving merchandise. Comparisons indicated that extra stamping would increase sales of products (averaging Tables VII, VIII, IX) to an estimated 2,855 per cent.

The Movement of Specific Items

There are many factors governing the power of extra stamps to move specific items; the acceptance and use of the item, the pricing policy on the item, the advertisement that the item carries extra stamps, display, the number of extra stamped items in the store during the promotion, the location of the store, the time of week the item is extra stamped, the frequency with which the item is extra stamped, and the popularity of the stamp. These multiple influences on the demand of the extra stamped products have made it difficult for grocers to stock correctly for the promotion. Retail grocers complained frequently to the interviewer of overstocking and understocking.

Indications were received from the interviews that could possibly clarify some of these variables. Many consumers, like the lady who bought extra stamped dog food to "re-sell it," are agressive stamp savers. These customers will purchase slow moving items, if they have any possible use for them. Frozen foreign style dinners are an example. Sales on this item increased approximately a hundred fold in some retail stores when extra stamped, because very few were being sold before the extra stamping. A popular item like sugar may show a larger increase in case movement than a slower item when extra stamped but a smaller percentage increase since it is already a popular, high volume item. There are some low demand items which even extra stamps will not move, although some grocers have commented that they could sell their "floor sweepings" if they extra stamped them.

Bakery products and desserts move especially well if extra stamped. Those retail grocers who had redeemed coupons for coffee cakes, pecan rolls, strawberry short cake, and other impulse items were very enthusiastic; and many described such items as their first choice for extra stamps. Others felt that non-food items, particularly tooth brushes, aspirin, toothpaste, and other high-mark-up items not only moved well, but absorbed the cost of extra stamping better. Meats are a high margin item. Stamps seem to work particularly well on bacon, sausage, and ground beef. (See Tables VI and VII for grocers' preferences and movement of individual products by ratio at wholesale.) Table VIII includes estimates of Mr. John Gray, Jr.; Table IX includes estimates of Mr. Thomas Dunn.[3]

There are various pricing practices used with extra stamping, as is evident from the examination of the newspaper advertisements themselves. The National Tea Company has not included the price of the extra stamped item in their newspaper promoted extra stamp coupons, while The Kroger Company, Big Star Cash Food Stores, and Liberty Cash Grocers generally have included the price. Big Star Cash Food Chain has lowered occasionally the price of an extra stamped item for the promotion. This was very effective in moving the items.[4] When this procedure was followed on Campbell's Soup, it was so "successful" that one grocer was "glad he ran out," since he was standing a loss on the transaction. One grocer admitted that by raising the price of a certain item from thirty-nine cents to forty-nine cents and extra stamping it with fifty stamps, it moved exceptionally well.

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[3]John Gray, Jr., Co-Manager of John Gray and Son, Big Star Cash Food Store Number 8, Personal Interview.

[4]John Gray, Jr., Interview, loc. cit.

TABLE VI

FIRST CHOICES OF RETAIL GROCERS INTERVIEWED OF THE PRODUCT THEY WOULD PREFER TO EXTRA STAMP

	Meats	Cereal	Canned Foods	Non Food Products	Produce	Bread and Bakery Products
Number	10	0	8	12	3	11
Per Cent	23	0	18	27%	7%	25

TABLE VII

MOVEMENTS AT WHOLESALE OF INDIVIDUAL PRODUCTS DURING AND AFTER EXTRA STAMPING EXPRESSED IN PERCENTAGE RELATIONSHIP TO AVERAGE MOVEMENT. (FIVE WEEKS AVERAGE BEFORE EXTRA STAMPS IS REPRESENTED AS 100 PER CENT.)*

Product	Extra Stamp Period Percentage Movement	Aver. Weekly Movement Afterwards in Per Cent
Listerine	612	92
Colgate Economy	1555	54
St. Joseph's Aspirin	11820	Not Available
Mennen's Foamy	1173	Not Available
Fleers Bubble Gum	8161	Not Available
Westinghouse Light Bulbs	1155	97
Kraft Caramels	2504	143
Real Kill	3234	14
Vets Dog Food	2525	Not Available
Iced Tea	869	102
Tea Bags	4116	235
Coffee	3665	72
Black Pepper	6645	216
Stuffed Olives	2500	86
Marshmallows	1243	130
Peanut Butter	5000	105
Gelatin	3225	106
Mixed Nuts	4275	65
Frozen Vegetables	729	111
Pudding	1957	299
Sugar	965	100
Average	3235	119

*Wholesale figures on meats and bakery products were unobtainable. Figures include products of two wholesale firms.

TABLE VIII

MOVEMENT AT RETAIL (JOHN GRAY'S FOOD STORE) OF PRODUCTS DURING EXTRA STAMPING EXPRESSED IN RELATION TO AVERAGE (ESTIMATED) MOVEMENT.*

Product	Movement in Percentage During Extra Stamping
Listerine	1687
Light Bulbs	540
Liquid Chiffon (Soap)	1257
Free Wax	3700
Colgate Toothpaste	1072
Note Book Paper	1417
Tea	1400
Snow Crop Drinks	1550
Peanut Butter	1975
Bremmer Pies	1517
Dukes Mayonnaise	2283
Patio Dinners	1250
Skinners Macaroni	8900
Pillsbury Flour	2467
Mayrose Boiled Ham	1408
Hamburger Meat	524
Average	2059

*Mr. Gray produced coupon records to show movement during extra stamping and estimated his "normal" movement of each item. Percentages were obtained from dividing estimated normal movement into movement during stamping. Mr. Gray's store is of medium size and located in a neighborhood of "older people."

TABLE IX

MOVEMENT AT RETAIL (PIC PAC FOOD STORE) OF PRODUCTS DURING NEWSPAPER ADVERTISEMENT EXTRA STAMPING EXPRESSED IN PERCENTAGE RELATION TO AVERAGE (ESTIMATED) MOVEMENT WITHOUT EXTRA STAMPS.*

Product	Percentage During Extra Stamps
Alcoa Aluminum Foil	6800
Westinghouse Bulbs (100W)	709
No Bugs M'Lady	4142
Gleem Tooth Paste	3183
Griffin Shoe Polish	3833
Jazz Dog Food	1820
McCormicks Vanilla Extract	1530
Sam Pan Tea	967
Tetley Tea	4267
Blackburn's Syrup	3283
Derby Bar-B-Q Sauce	1366
Saur's Black Pepper	4017
Heinz Cucumber Disks (Pickles)	9233
Dukes Mayonnaise	1550
Welsh Mixed Nuts	7333
Libby's Frozen Foods	1575
Everbest Grape Jam	1213
King Cotton Sausage Links	4233
Tennessee Pride Sausage	945
Underwood Deviled Ham	2750
Tradewind Shrimp	7026
Patio Dinner	4167
Pillsbury Flour	1084
Dixie Lily Flour	1167
Pillsbury Cake Mix	958
Cake Box Banana	6050
Cake Box Brownies	3500
Cake Box Orange Cake	3083
Morton Pecan Roll	2000
Morton Butter Honey Cake	4020
Banana Cake	2667
Highlander Strawberry Shortcake	3833
Average	3260

*Percentages were derived from dividing the store manager's estimates of average or expected movement without stamps into the movement during extra stamping obtained from coupon records.

The National Tea Company and The Kroger Company use twenty-five extra stamps on many products, while Big Star Cash Food Stores and Pic Pac Food Stores use fifty and one hundred. One Big Star grocer explained that twenty-five extra stamps did not have "near the draw" of fifty extra stamps. The number of extra stamps offered with a product often depends on its mark-up. The National Tea Company has offered five hundred free stamps frequently with a whole side of beef. See Tables X and XI for retail grocers' opinions on the number of stamps offered in relation to the price of the item. It may be noticed that fifty extra stamps was the most popular number of stamps offered (among grocers interviewed) for products in the $.50 and $1.00 range.

The proper advertisement that the product carries extra stamps makes a great deal of difference in public response to extra stamping. If stamps are to be used as a "leader," they should certainly be advertised in circulars or newspapers. Newspaper couponing is perhaps the most satisfactory method. A display is almost necessary to keep enough items on the floor to meet increased demand. Every merchant interviewed said he tagged items at the point of purchase with extra stamp signs, eleven of the forty-four used circulars; and ten announced in the store that items

TABLE X

EXTRA STAMPS (25, 50, or 100) GROCERS SAID THEY WOULD PUT ON AN AVERAGE ITEM SELLING FOR $.50

	25 Stamps	50 Stamps	100 Stamps
Number	14	30	0
Per Cent	32	68	0

TABLE XI

EXTRA STAMPS (25, 50, or 100) GROCERS SAID THEY WOULD PUT ON AN AVERAGE ITEM SELLING FOR $1.00

	25 Stamps	50 Stamps	100 Stamps
Number	0	29	15
Per Cent	0	66	34

carried extra stamps. All merchants said they used display at least occasionally. Some merchants suggested that the most effective way to use extra stamping is packaging the stamps with the item. This has the advantage of not slowing down checking lines and the disadvantage of possible theft of the stamps. Mr. J. R. Hyde, Sr., of Malone and Hyde, said Big Star Cash Food Stores experimented with the idea, but theft was too great.[5] Apparently, Kroger had better results. Kroger managers lauded the practice highly, and Kroger stores use it frequently.

Of course, if a great many items in a store are extra stamped at the same time, competition between items extra stamped in the store itself is accelerated; and sales per item tends to be lessened. The Kroger Company and the National Tea Company have experimented with full page newspaper advertisements, using only extra stamped items as leaders. Although results were reported good, the practice has not been repeated. Mr. J. R. Hyde, Sr., thinks this idea confuses the customer and prefers to use only four to nine extra stamped items per Thursday's "Big Star" advertisement.

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[5] Mr. J. R. Hyde, Sr., Chairman of the Board, Malone and Hyde, Inc., Personal Interview.

The location of the store may have bearing on the proportionate increase in sales caused by extra stamps. Stores in shopping centers and on main traffic arteries doing big volume reported more percentage increase in sales on the whole than neighborhood lower volume stores giving the same stamps. Mr. Thomas Dunn estimated a thirty fold increase (his stores are perhaps the largest giving Quality Stamps and are located in shopping centers), while the only two Big Star Cash Food Stores in the "small" category (two or less check-out counters) claimed an average of ten fold increase.

The time of the week the item is extra stamped also makes a difference. The Kroger Company advertised with coupons good on Wednesday. One Kroger manager, at least, expressed the opinion after the experiment that coupons good on Thursday were much more effective than those good on Wednesday. (Thursday is normally a heavy volume day in Memphis.)

The inherent powers of the stamp itself, its popularity and acceptance in the area have a large influence on the power of extra stamping. The two more powerful stamps in supermarket distribution had higher promotional results (expressed in questionnaire answers) by a ratio of approximately 15:8 with the two less powerful stamps.

The Effect of Extra Stamping on Competitive Brands

The effect of extra stamping an item on brands in competition with that item depends on the degree of competition and the items involved. A satisfactory new product sampled through the extra stamping process may well retain a larger share of the market than it had before the extra stamping. The retail grocers interviewed, however, felt that most extra stamped items returned to the same market share as before the extra stamping.

During the time that an item is extra stamped, sales of competitive items drop off sharply. When asked how an extra stamped item affected the sale of items in direct competition during the extra stamping, the more frequent answers were "it kills it," "you don't sell any," or similar expressions. Store managers, when they were interviewed, all agreed that it seriously cut sales of the competitive item. Out of forty-four retailers, thirty-two said that less than 10 per cent of directly competitive items were sold during the promotion, two "didn't know" how much it decreased sales of the directly competitive items; and the other ten retailers said there was less decrease in sales of competitive items than 90 per cent. The interview indicated, therefore, that while extra stamped items decreased sales of items in direct competition during the special promotion, a return to the same market share afterwards could be expected in most cases.

Introducing a New Product Through Extra Stamping

Evidence already given (Table IV) indicates that retailers felt extra stamping would be an especially good way to introduce a new brand to the public. Eighty-two per cent favored extra stamping over a price reduction of equivalent cost. Mr. J. R. Hyde, Sr., of Malone and Hyde, said that he sometimes turned down salesmen who offered to pay the extra stamping cost on their product, because he did not want his retailers to be drawn into overstocking products that would not sell.[6] Extra stamping has proved successful in public sampling of dog food, bakery products, and foreign style frozen dinners.

Extra Stamping as a Minimizer of "Loss Leaders"

Most of the extra stamp leader coupons in newspaper advertisements are for one purpose, as far as grocers are concerned, and that is to bring more trade into the store. All forty-four retailers and all wholesalers interviewed

[6] Mr. J. R. Hyde, Interview, *loc. cit.*

thought extra stamping accomplished this purpose. Mr. J. R. Hyde, Sr. said his grocers (Big Star Cash Food Stores) had noticed an "increase" that they attributed to the extra stamping. As reported before, The National Tea Company and The Kroger Company have used all extra stamp leader advertisements. When retailers were asked if they would include more price leaders or extra stamp leaders if they were to make up a newspaper or circular advertisement, 43 per cent indicated that they would use more extra stamp leaders, 41 per cent more price leaders than stamp leaders; and 16 per cent indicated they would use an equal percentage of both leaders. The usual practice of the chain groceries, however, is to include many more price leaders than extra stamped items in newspaper advertisements.

As the cost of some of these extra stamp discounts on items is reimbursed to the retailers by food brokers and salesmen, extra stamping entails an economical leader system. Several grocers in the Liberty Cash chain stated that practically all of their coupons were being reimbursed by the brokers and salesmen.

Extra Stamps as a Business Stabilizer

Since personnel policies and stocking procedures are already tailored for the most part to heavy Thursday, Friday, and Saturday business, stability of business throughout the week is not considered a big problem by most grocers; but it is a consideration. The Kroger Company experimented by offering two thousand extra stamps in a Monday advertisement, but the practice has not been repeated. Conceivably, extra stamping could help balance business through the week; but in Memphis it would have to overcome long established shopping habits.

Extra Stamping and the Private Brand Manufacturers Brand Fight

Manufacturers very often resent and oppose the practice of wholesale officials "pushing" their own private brands over the manufacturers' brands. This has always been a problem in wholesaler-manufacturer relationships, but, since private brands are more profitable to the wholesaler, they are continually promoted. An examination of the Kroger Company and The National Tea Company's advertisements indicated that they were using extra stamps to focus consumer attention on their particular brands. More than half of the extra stamped items appearing in many advertisements were Kroger and Natco brands, and often the same brand was extra stamped more than once. If the power of extra stamps is as great as indicated in this or Douglas J. Dalrymple's study, then this repeated practice has potential for increasing the market share of private brands over manufacturer's brands. At least, stamps are a potent inducement for consumers to sample the private brands.

IV. CONCLUSION

Extra stamping has had a marked influence on specific item and aggregate merchandise sales in most extra stamp giving stores. Grocers, wholesale and retail, felt that couponing extra stamped items in newspaper advertisements constituted an effective and economical leader system and an excellent way of pin-pointing the movement of specific items. While extra stamps will increase sales of practically any item, the purposes behind extra stamp decisions influence the specific item chosen. Extra stamps are put on private brands and overstocked items to move those particular items; they are put on popular items to increase over-all store volume; they are put on high margin items to help absorb promotional costs; and they are put on many items simply because the food broker stands the cost of the stamps himself. High margin impulse items that are quickly consumed sell especially well when extra stamped and do not lead to "over-buying" by consumers. When judiciously used, extra stamping has an effect similar to price reduction, but a higher elasticity value. Merchants doing heavy volume in a heavily trafficked location who have one of the more popular stamps can expect higher percentage increases of sales than merchants without those qualifications.

The promotion represents a flexible and economical tool for grocery management, a convenient way to induce customers to sample their product for food brokers, more stamp sales for stamp companies, and an extra bonus for avid stamp saving consumers. The disadvantage of improper stocking, the handling, and the expense of the coupons are present evils that can be partially overcome by proper management. To manage the promotion properly requires a knowledge of the many variables already discussed.

CHAPTER VI

APPRAISAL

The large stamp companies, the Premium Advertising Association of America, and the popularity of stamps with the American housewife have continued to foster stamp growth. In 1959, with tremendous numerical strength, better organization, and favorable reports from economic studies, stamps have won a more stable position in the economy. In spite of recent gains, however, the status of stamps is still a highly debatable issue. Although legislative attempts against stamps have diminished recently in the face of majority decisions, the fact that many merchant groups are still desperately seeking means to restrict them in any possible way indicates that the struggle between opposing factions is not over.

Most opposition to stamps stems from merchants who stand to lose from the promotion because of location, present large market share, product, or exclusion from the better stamp plans. Some merchants lose because stamps effect a redistribution of volume in an area without a significant increase in total area volume. Spokesmen for the anti-stamp merchants contend that the stamp promotion is not economically sound; that while other forms of advertising may create over-all volume, stamps do not; that not only do stamps fail to perform a necessary service to the economy, but in reality, they deceive the consumer.[1]

To examine these charges and provide an unbiased appraisal requires an evaluation of stamps from the viewpoint of each group affected in the economy: the merchants, the consumer and advertising firms "competing" with stamps for the advertising dollar.

I. MERCHANT APPRAISAL

The merchant considering stamps needs to have information that will aid him in making his decision. Stamp salesmen often furnish biased information. Although the sales presentation may be quite true, it does not bring important anti-stamp considerations to light. The merchant should be acquainted with the general disadvantages as well as advantages of stamps, then he can consider his own particular situation and evaluate stamp plans available.

The advantages and disadvantages of stamps are given below in listed form. Some of the points may seem superficial, but good coverage has been attempted. Because disadvantages are least obvious, they will be given primary consideration.

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[1]The Economics of Trading Stamps, Safeway Stores, Inc., Typed Report, (No Date) pp. 1-5.

Disadvantages

Cost of Stamps. Cost varies with the plan. Generally speaking, the cost is between 1 1/2 per cent to 3 per cent of gross sales, depending on discounts, distribution, and initial price. For vendors other than grocers, 2.5 per cent is perhaps a conservative expectation, and 2 per cent for grocers. This is expensive advertising: "Net profits in the retail food field seldom exceed 2 per cent. A profit ratio of 1 per cent to 1 1/2 per cent is more typical."[2] Gasoline stations report the same problem. A substantial volume gain is necessary to cover expenses of the stamps (depending on the business). It must be remembered that with volume gains other expenses often rise. The store operating with no excess capacity (all the business it can handle with present facilities) must seriously consider this problem.

Handling. Handling is always disadvantageous to some degree. Despite facilities developed by the stamp companies, such as cash register trays and even special vending machines, stamps require counting and figuring like any other change. Often check-out lines are slowed. Gas stations probably

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[2]"Trading Stamps Are Responsible for Costly Price Wars," Safeway Stores' Pamphlet, (No Date), p. 3.

have the most trouble. Operators often carry pads of stamps in their pockets and with dirty hands, tear out the correct amount. Rain accentuates their difficulties. Some merchants have reported stamp inventories damaged by moisture and temperature, but under normal conditions, and with proper care, this presents small difficulty. Special care must be taken to avoid theft, because stamps are "money." In actuality, however, the expense disadvantage is so much greater in comparison that merchants generally regard handling troubles as negligible.

Discontinuance. The merchant may legally drop stamps after the contract has expired; by purposely violating the contract he may drop them before contract time limit. Competitively, dropping is much more difficult. The customer has been asked and invited by the vendor to fill stamp books. To announce discontinuance will doubtless irritate the customer who has partially filled books (and such is obviously the case with most stamp savers). This customer may trade elsewhere to complete his book, or, angered, may never return to the store. If he does return, his comments may be quite disagreeable to the merchant. Although notice of discontinuance may be given long before the actual act, stamps are difficult to "drop." One idea is to follow discontinuance with a promotion other than stamps.

Competitive Enmity. Previously peaceful competitive relationships often degenerate into serious retaliatory wars when stamps are introduced by one of neighboring competitors. Concerns may maintain open friendship or at least "peaceful co-existence" for years without cut price competition of any kind. Stamps automatically invite retaliation and neutralization of benefits. The merchant who has experienced volume gains must consider the nullifying effect of competitive defensive measures.[3] Once instituted, multiple stamp competition is every bit as serious and expensive as price cutting.

Economically Unsound. Many merchants feel that stamps are an unethical type of competition. Firms who have built a reputation on low prices and service, often regard the promotion as an uneconomical movement, and disseminate anti-stamp advertising designed to convey this attitude to the consumer. Whether stamps are unsound for the economy or not is subject to debate, but such institutions are reticent about adopting a policy they feel is detrimental to both consumer and retailer.

Consumer Disapproval. Some consumers, impressed with anti-stamp advertising, shop at non-stamp stores, thinking perhaps that the cost of stamps is added to the price of

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[3] See Historical Chapter for the cyclical effect of stamps.

the goods. The coupon seems an admission that the goods do not measure up to price asked. Stamps irritate some customers because they complicate value decisions; a few drop stamps when they realize the length of time involved in filling a book.

Complication of Procedure. Stamps affect buying and other operational decisions. A store adopting stamps may be faced with important change of procedure and policy. Personnel, inventory, bookkeeping, and advertising procedure often have to be re-examined in the light of this change.

Dealer Reliability. Some dealers provide excellent service and execute every detail of the contract; others may be totally unreliable. Sales presentation and actual operations are two different explanations. History denotes the damage done by "fly-by-nighters" in the past. Dealer treatment of stamp savers involves the reputation of the vendor. The merchant should be particularly careful in selecting his stamp dealer.

Retailer Competes with Himself. Small appliance, hardware stores, and variety stores may find themselves "feeding the mouth that bites them." Retailers give stamps that may be exchanged for merchandise comparable to their own. Norman Brown of Summer's Brown says that redemption center competition is considerably detrimental to the small appliance trade.[4]

Legal Implications. In some areas the retailer is liable for license taxes unpaid by the stamp company. Retailers have been arrested and brought to trial by parties eager to test fair-trade price maintenance on the question of whether stamps are a discount for cash or a price cut. The question is still not completely solved.

Merchandising Program Inflexibility. Some retailers feel that because stamp costs are in direct proportion to sales the manager cannot adjust operations to changing conditions. Other promotions can be more easily controlled and called upon to boost business when needed. The stamp promotion is long-run in nature and cannot advantageously be dropped and re-adopted as often as direct give-aways.

Advantages

Increased Volume. Just as cost is by far the main disadvantage, increased sales is by far the main advantage. Business volume has been doubled for hundreds of vendors

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[4]Norman Brown, Owner, Summer's Brown Appliance Store, Personal Interview.

who have used stamps under favorable conditions. There are many reasons why stamps increase volume. Most of them need no explanation.

A. They change shoppers to customers.
B. They hold customers.
C. They insure repeat sales (customer has to come more than once to fill a book).
D. They appeal to all types of people.
E. "When properly handled," 95 per cent of the buying public save them.
F. They give customers a reason for disregarding competitors' low prices.
G. They are a time proven promotion.
H. They make advertising more attractive (grocer can advertise more than "beans", for instance.)[5]

Summed up, these factors simply mean that the store has more customers and more sales per customer through the use of stamps.

Volume figures given by stamp salesmen are impressive. Salesmen of progressive companies can usually produce letters of testimony from prominent retailers in an area who are pleased with the plan and have increased their volume over 50 per cent.

Customer Goodwill. Customers may feel that the merchant is progressive and generous to institute stamp promotion.

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[5] C. M. Byron, "Trading Stamps--Menace? or Magic?", The Voluntary and Cooperative Groups Magazine, March, 1954, p. 1.

Whether the housewife believes stamps are a "bonus for patronage," "profit sharing," "a discount for cash," or simply an added service, she may be favorably disposed to the merchant giving them. Someone has described premiums as the only type of promotion in which the customer directly benefits. At any rate, stamps are valuable in building goodwill.

Quicker Credit Collections. Stamps, when used as a "discount for cash," decrease accounts receivable. A superette in Texas had this experience: "We are a credit store and do not give stamps except to fully paid-up accounts; this has cut accounts receivable by more than one half."[6] Stamps encourage more "cash and carry" trade.

Stabilizes Business. Proper manipulation of stamps by a vendor can stabilize his business. Merchants by offering extra stamps on "off days" or "off hours" can maintain steadier trade and cut overtime and part-time help expenses.

Competitor Pays. The competitor often pays the merchant's stamp bill in lost volume. If the plan does not do more than pay for itself in gained volume, the merchant may rationalize that the promotion has served its purpose as a defensive measure.

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[6]"What Dealers Say About Premiums--Stamp Plans," The Progressive Grocer, October, 1953, p. 38.

Induces Purchases of High Mark-Up Goods. Stamp dealers contend that customers are prone to buying higher mark-up items in their frenzy to obtain stamps.

Service. Some stamp companies offer merchandising advice and direct assistance to the retailers. Progressive merchandising methods may be suggested by the dealer, which lead to higher profits for the retailer. Stamp companies want the vendor to succeed.

Divides Cost with the Customer. Customers can be subtly induced to pay part of the promotion expense by paying higher prices on merchandise.

Flexibility Through Extra Stamps. Extra stamps will often move merchandise much more economically than price cuts. Only stamp vendors can exercise this flexibility within the promotion. Many a retailer in Memphis has solved his perishable and overstocking problems through extra stamps. Extra stamps can "pin-point" any item in the store for purchase.

Other Advantages. Other advantages of stamps are: they reward customers directly in proportion to their patronage, they provide improved profit and expense ratios in many cases, they provide savings on discounts from larger purchases, and they encourage customers to shop the store first.[7]

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[7]Harvey L. Vredenburg, Trading Stamps, (Bloomington: Bureau of Business Research, Indiana University, 1956), p. 109.

Specific Considerations

After the retailer has examined stamps generally, he must examine them specifically; he must determine whether his own particular situation would be improved or worsened by adopting a plan. Below are important considerations in deciding whether or not a stamp plan would help profits.

Location. The retailer located in close proximity to competition may find the effects of stamps intensified; the first to adopt in such an area is likely to have significant volume increases, but retaliation is more likely. Locations on main traffic arteries are conducive to better stamp promotion than locations on side streets. A residential neighborhood filled with new families is better than an industrial or "older" neighborhood. Location near a group of stores or stores with high volume business giving the particular stamp considered is ideal.

Type of Store. A store which has small and frequent purchases of convenience goods and whose competition is keen can perhaps do most with the promotion. Large purchases on shopping or demand goods are usually based on other considerations than stamps. If competition is not keen, then there may be little source for increased volume. Grocery stores, gasoline stations, drug stores, and cleaners are the traditional users of stamps, while auto dealers, furniture stores and large appliance dealers find more difficulty in making the promotion work. Some department stores have been very successful with stamps; Famous Barr in St. Louis is an example.

Store Capacity. The store must handle the increased volume without an offsetting increase in cost. A situation of excess capacity is ideal. If more personnel or machinery must be added to handle expected increase volume, these expenses must be considered.

Plans Available. Alternatives to stamps are important considerations. If a cheaper promotion will accomplish the same purpose, then that promotion may be more feasible than stamps. In most instances, when stamps are highly popular, alternative plans are relatively ineffective. If exclusive agency agreements have excluded the retailer already from the best plans, it may be wiser to adopt a tape plan or give-away.

Source for Volume. If a retailer already has the "lion's share" of volume in a particular area, he may find little source for increased volume unless he is located on a main traffic artery. A store, for example, with 80 per cent of the gasoline business in an area may adopt stamps wisely only as a defensive measure.

Type of Customer. A study done in Indianapolis indicated that the following stamp saver would have ideal characteristics: a white, young, housewife with four or more in her household and family income of $4,000 or over. Men, people over sixty years old, and unmarried people generally exhibit less interest in stamps.[8]

Evaluating Stamp Companies

The choice of a stamp company is important and sometimes difficult when several alternatives are possible. The merchant should obtain information from many sources on the individual company's merits. The Chamber of Commerce, publications, accounts already vending this dealer's stamps, and salesmen both of the dealer or of competitive dealers can often contribute such information. Below are important considerations.

Can the Company Prove That It Is Reputable? Is the company a seeming "fly-by-night" organization or is it stable? Is it local or national? Is it backed by sound interests, such as a reliable chain or a large department store? What kind of personnel does it employ? What are its selling methods and approaches?

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[8]Albert Haring and Wallace O. Yoder, *Trading Stamp Practice and Pricing Policy*, (Bloomington: Bureau of Business Research, Indiana University, 1958), p. 46.

Popularity. What is the company's popularity standing in the area? What are the number and quality of its over-all accounts, and its accounts in the area? What do fellow (non-competing) merchants think of it? What is the prospect for future popularity of the company? Do customers request its stamps?

Is the Company Well Advertised? Are its signs, stickers, catalogues, streamers, and other advertising material in good taste and attractive? Does it advertise over television, radio, and outdoor? How does it suggest that the vendor initiate the promotion?

What Does the Contract Require? Does the dealer have a rigid contract? Does the franchise exclude competition sufficiently? Are the requirements on the vendor reasonable and in line with requirements of other dealers? Does the contract provide adequate dealer services?

What Kind of "Deal" Does the Customer Get? Is the premium center attractive? How many stamps are required by each of the companies in the area for the consumer to get an equivalent premium? Are the premiums of the proper type?

What Kind of General Attitude Does the Company Have? Below is a quotation from S. L. Wisebart of the Eagle Stamp Company of St. Louis:

> "As a company we have a three fold obligation. First: To cooperate with our customers so that their investment in Eagle Stamps will be profitable to them. To that end we provide counseling and advertising service and work with our customers as they give us the opportunity. Second: To maintain an active organization of stores and service stations in sufficient numbers and conveniently located so that stamp savers can fill stamp books easily, and thus, keep up their interest. Third: To so promote Eagle Stamp publicity that public interest will be maintained and The Eagle Stamp Plan made worth while for all. Through all of our work, our aim is to give our customers earnest, honest, helpful cooperation, to carry out rigidly all agreements made, and to adhere tenaciously to the policy of advancing the interests of our customers so that we, too, can continue to progress through service."[9]

II. CONSUMER APPRAISAL

The consumer is largely responsible for the success of stamps. Does he actually benefit from the promotion or has he been deceived into supporting it? Studies have been completed which provide answers to the question by revealing stamps' influence on prices, consumer opinion, and consumer shopping habits. Certainly the consumer is the largest group to be considered, and consumer motivations and reactions to stamps are important from all viewpoints.

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[9]S. L. Wisebart, President of Eagle Stamp Company of St. Louis, Personal Interview.

Do Stamps Raise Prices?

If the cost of stamps is expressed in higher prices or poorer services, the consumer may lose from trading at stamp stores, but if the vendors' profits from increased volume absorb the cost of the stamps, the consumer is benefited. Below are summaries of objective studies which focused on the answer to the above question.

The Indianapolis Survey. Professors Albert Haring and Wallace O. Yoder of Indiana University School of Business compared prices in twenty-eight Indianapolis food stores, using as a basis of comparison the list of food items used by the Bureau of Labor Statistics in compiling the food section of its consumer price index. The study found no significant tendency for prices in stamp giving stores to be either higher or lower than average in Indianapolis.[10]

The Survey of Twenty Cities. The Bureau of Labor Statistics again formed the basis for a study comparing fifteen cities where stamp saturation had reached a significant level and five larger cities which were virtually free from stamps. A comparison of the price indexes of

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[10]Albert Haring and Wallace O. Yoder, op. cit. p. 229.

these cities revealed again that trading stamps had no identifiable influence on price indexes, that the hypothesis that stamps raise food prices in the communities where stamps are used was not supported.[11]

The Washington-Baltimore Studies. Since stamps are illegal in Washington D. C., and are used by 75 per cent of the supermarkets in Baltimore, thirty-five miles away, a comparison of prices in these two cities was made. This comparison revealed that specific food retailers price their unique combinations of food, service, and convenience to suit themselves regardless of stamps. There were no contrasting differences between the over-all price of the two cities.[12]

The Supermarket Merchandising Mail Questionnaire. This survey was made by the trade magazine named above to ascertain how seventy-seven grocery firms using stamps in 1,360 supermarkets regarded the stamp-pricing operations. The questionnaire revealed that 76.6 per cent said they had not changed prices up or down due to stamps, while 11.7 per cent admitted they had raised prices. Another 11.7 per cent contended that prices were actually lower in their stores after the promotion was instituted.[13]

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[11] Ibid., P. 238

[12] Ibid., pp. 257-258.

[13] Ibid., p. 274.

The Department of Agriculture Study. This study, conducted by a government agency, compared five major retail chains' organizations which added stamps during the first quarter of 1956 with five which did not. The conclusion reached was that the average prices paid by consumers in stamp stores increased 0.6 per cent more than in non-stamp stores. Since premiums were worth 2.0 per cent (according to the study), this represented a 1.4 per cent net gain to the consumer.[14] Correlating with this conclusion is the Haring-Yoder belief that the price differential between stamp and non-stamp stores (caused mainly by price reductions of non-stamp stores) is between 0.5 and 1.0 per cent. They contend that the consumer gets the greatest total bargain by patronizing the lowest-priced, conveniently located stamp store.[15]

Motivations of Stamp Saver

There are other motivations besides direct premium gain that account for current stamp popularity. Many consumers

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[14]Agricultural Marketing Service, United States Department of Agriculture, Trading Stamps and Their Impact on Food Prices, (Marketing Research Report No. 295) Washington, D. C., December, 1958.

[15]Albert Haring and Wallace O. Yoder, op. cit., p. 285.

enjoy saving stamps as a "fad" or "game." Others enjoy thinking of themselves as being thrifty or try to impress their family or friends that they are thrifty by saving stamps. To some, saving stamps provides justification for obtaining articles their husbands cannot afford to buy them. There is no doubt that stamps provide an entertainment value and give savers psychological satisfactions.[16]

The Haring-Yoder Study of Attitudes. In an effort to understand consumer behavior toward stamps and ascertain patronage motives in Indianapolis, a questionnaire study was made under the Indiana University grant. Consumers were divided into four groups with regard to their interest in stamps and the behavior and attitudes of each group studied.

The study indicated that stamps were a strong secondary patronage motive. The more important motives given by savers and non-savers for purchasing food at a particular store were: price, quality, convenient location, a wide selection of merchandise, and a clean store.[17] Stamps,

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[16]Eugene R. Beem, "The Outlook for Trading Stamps," an address before the American Marketing Association's Northern California Chapter, November 20, 1958. Copies available from the Sperry and Hutchinson Company, 114 Fifth Avenue, New York, New York.

[17]Albert Haring and Wallace O. Yoder, *op. cit.,* pp. 90-91.

however, constitute an additional "plus" factor which because of increasing standardization of outlets, differentiates the store and promotes volume increase.

The sample was segregated into the following divisions: non-stamp savers 17.5 per cent, agressive stamp savers 22.9 per cent, interested stamp savers 22.8 per cent, and passive stamp savers 36.8 per cent. Agressive stamp savers indicated by their answers that obtaining stamps was a definite patronage motive with them and that they were willing to pay slightly more to obtain stamps; interested savers indicated a willingness to pay slightly more, but did not mention stamps as a strong patronage motive, while passive savers neither indicated that stamps were a strong patronage motive nor that they would pay slightly more to obtain them. As would be supposed, the agressive savers have a tendency to shift their buying habits to obtain stamps, while the other two types would most likely still patronize a store which discontinued stamps. Interested savers would, however, probably regret discontinuance, while passive savers, who save stamps because they receive them free, would probably not care.[18] The agressive saver thus constitutes the hope of a retailer who has just installed stamps.

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[18] Ibid., pp. 43-44.

III. EFFECTS ON ADVERTISING

Because stamps are a costly promotion, there has been much speculation as to whether they reduce other forms of advertising. It has been contended that stamps substitute for advertising. Professors Jean C. Halterman and Harrison L. Grathwohl of Indiana University have investigated this question by examining actual advertising practices in Indianapolis, Indiana.

The advertising lineage in newspapers and actual radio and television time purchases during 1954, 1955, and 1956 were studied. While "the introduction of stamps did not bring about any drastic or long-lasting effects upon the advertising practices of small retailers," it did bring about an increase in newspaper advertising and the frequency of radio and television advertising by major stamp giving retailers. Newspaper advertising was considerably increased in June, 1955, by the three major chains adopting stamps at that time and a high level maintained throughout 1956. All stamp stores investigated (taken together) had increased their newspaper advertising 24.7 per cent in 1956, as compared with 1954, while non-stamp stores had actually decreased their advertising to 97.2 per cent of 1954. It was also found that during 1955 the three major chains devoted 24 to 46 per cent of their advertising to the trading stamp theme by "loosening" up their advertising layouts slightly. In 1956 this space devoted to trading stamps was reduced. The three major chains adopting stamps also increased radio advertising in the 1955-1956 period, and a large non-stamp chain purchased more spot announcements on television in 1955. There was very little direct anti-stamp advertising by non-users. The study indicated that trading stamps were not a substitute for advertising.[19]

IV. TRADING STAMPS AND THE AMERICAN ECONOMY

There are four important questions to be considered in evaluating stamps in relation to the entire economy: (1) Do stamps accentuate retail failures, (2) do stamps raise the retail price level, (3) do stamps provide efficient marketing channels for premium merchandise, and (4) are stamps a fair and economic competitive practice? Two of these questions have been discussed in appraising stamps for specific groups in the economy, but it is necessary to re-examine retail prices and the promotional qualifications of stamps with added reasoning to view the broader economic picture.

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[19] *Ibid.*, pp. 183-194.

Stamps and Retail Failures

Dr. Charles F. Phillips, Economist, in conjunction with Dunn and Bradstreet, made a study of retail failures in food stores, drug stores, and dry goods and general merchandise stores. "Failures" for these stores were tabulated separately for each year from 1947 through 1956 in twenty-five large cities. It was found that while failures increased substantially during the 1954-1956 period as compared with the three years from 1947-1949, that the increases in failure indexes were substantially less for those cities where stamps had gained most as compared with both the twenty-five cities as a group and the cities without stamp activity. The study, therefore, indicated that stamps could actually have a slight preventive effect on retail failures.[20]

Charles F. Phillips believed that stamps actually increase competition and lower prices. He presented as evidence the Haring-Yoder Study in which over 50 per cent of non-stamp food stores, and 22.6 per cent of druggist stated that they lowered prices to combat stamps. Many gas

[20]Charles F. Phillips, "Trading Stamps and the Competitive Economy," An address before the House Committee on Agriculture, New York City, October, 1957. Reprints available from The Sperry and Hutchinson Company, 114 Fifth Avenue, New York, New York.

station owners in Memphis who experimented with stamps said that stamps were responsible for lowering gasoline prices and increasing competition. The lower prices instituted by non-stamp stores as a defensive measure generally were met by stamp stores. This is also true of added services and increased advertising. Stamps seem to increase competition in nearly all facets and, consequently, lower the price level.[21]

The Efficiency of Redemption Center Distribution

There is reason from analysis to believe that the trading stamp method of distributing premiums with estimated retail value $500,000,000 is more efficient than the orthodox marketing channels for those goods. Although most marketing functions must be shifted and cannot be eliminated, efficiencies in the distributive process can often improve ratios of consumer value to consumer cost.

Because trading stamp companies in Memphis are large, centrally located, and less numerous than smaller retailers competing with premium-type merchandise, they can realize the economies of scale in an oligopoly competitive situation. These companies buy most premiums directly from manufacturers

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[21]*Ibid.*

and distribute them through redemption center outlets. The exchange functions of buying and selling are facilitated for the manufacturer and the "retailer" (stamp company in this case). There are less contacts necessary between manufacturer's salesmen and skilled stamp company buyers with adequate demand information. Because premiums are bulk bought, they can be obtained by stamp companies at less cost than by most small retailers, while the reduction in cost through quantity discounts represents actual transportation, storage, and risk savings to the manufacturer.

Less selling effort and less costs are required to move the premiums to consumers from the redemption centers. When credit services to consumers are eliminated, "working capital" associated with accounts receivable is unnecessary for the stamp companies.[22] Advertising expenses are cut by stamp company utilization of retailer media space, and there are no separate promotion costs for the redemption centers. Mark-down and surplus problems are also minimized by superior market (demand) information possible in larger firms, and the unredeemed stamp revenue is passed on to either the consumer or the retail vendor because of competitive

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[22]Eugene R. Beem, "The Impact of Consumer Premiums on Marketing Efficiency," Journal of Marketing, July, 1958, pp. 17-22.

pressures.[23] Although this channel of distribution eliminates certain consumer services, slows merchandise movement in the sense that consumers must accumulate stamps before acquiring premiums, and perhaps force higher margins on retailers competing with premiums, the marketing processes of concentration, dispersion, and equalization (supply and demand) are facilitated, and the increase in transactions and employment caused by the premium business may well raise the general volume of business activity.

Stamps as a Fair Competitive Practice

Economists Eugene R. Beem, Charles F. Phillips, and Professors Albert Haring, Wallace O. Yoder, and Harvey L. Vredenburg seem to agree from the summaries of their various studies that stamps are a fair promotional practice. In our economy the market place is regarded as the court and the consumer the jury, deciding the success of a product, service, or advertising promotion.[24] Enough consumers have accepted stamps to give the promotion tremendous success. In reality stamps are little different from the other promotional practices except that they intensify expense and

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[23] *Ibid.*

[24] Charles F. Phillips, *loc. cit.*

results, are exclusive, and are relatively inflexible in dropping. The exclusive feature is perhaps the most widely attacked facet of stamp usage. Exclusiveness makes stamp competition impossible to meet on an identical basis. Exclusiveness, however, is found in many areas in our marketing structure, especially in products themselves (such as automobiles). According to Charles F. Phillips, to say that stamps are an unfair competitive device would require a re-evaluation of our economical ideal of free competition.[25] This contention has been supported by the courts and other prominent economists who have studied stamps from this aspect.

Dr. Eugene R. Beem points out that stamps have intensified competition by (1) providing a method of discount more difficult to imitate than price reductions, (2) providing a modest reduction in situations where fraction of cents reductions would be feasible though impossible, and (3) providing a discount on re-sale price maintenance items.[26]

If stamps have been detrimental to any group in the economy, it has been either the merchants who have not adopted stamps or those who have failed to profit by them. This would be true of any successful promotion.

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[25]Charles F. Phillips, loc. cit.

[26]Eugene R. Beem, op. cit., p. 21.

CHAPTER VII

SUMMARY AND CONCLUSIONS

I. HISTORY

The same basic operational methods established by the Sperry and Hutchinson Corporation in 1896 and the same psychological appeal that spread trading stamps into half of America's homes by 1917 are largely responsible for current stamp popularity in Memphis. The retail climate was different in the early part of this century, however. Stamp status was influenced negatively by practices of unethical stamp companies, wars, depressions, and lack of supermarkets and transportation facilities.

Today modern supermarkets, gasoline stations, cleaners, and other merchant outlets in Memphis give stamps on a substantial share of consumer income. Market conditions of prosperity, increasing competition, standardization of retail outlets, more automobiles per family, expanding population, and legal acceptance of trading stamps have been favorable influences in the rise of stamps to their present status in the nation and in Memphis. In the nation, approximately $500,000,000 worth of trading stamp premiums (at retail value) are given for stamps yearly, and approximately 15 per cent of all retail trade is made by stamp vending merchants. In Memphis, approximately three hundred retailers are offering stamps, and approximately 90 per cent of all families collect them. The trend of stamp gain in popularity and stability has not been reversed. New redemption centers, lower stamp prices to retail vendors, a legal victory for stamp interests, and improved advertising, selling techniques, and premium selection have built a sounder foundation for the promotion in Memphis.

In food and gasoline retailing particularly, trading stamps have a stronger status in the city than other premium plans. Unless there is a significant change in retail environment or a successful anti-stamp law, stamps should retain their present promotional standing and perhaps grow more important in other fields of merchandising.

II. LEGALITY

The exclusiveness of trading stamps and their effectiveness in re-distributing area trade have stimulated anti-stamp merchants to attempt restrictive or prohibitive legislation in almost every state. Of the hundreds of laws attempted prohibiting or severely restricting stamps, most have been declared unconstitutional in state supreme courts.

The attempt by Memphis merchants to outlaw stamps was typical of past legislative efforts to exclude stamps from the market. A noted Memphis attorney, backed by merchant testimony and merchant funds, succeeded in persuading the legislature to pass a prohibitive tax on stamp vendors. Although the bill was declared unconstitutional exercise of police powers and discriminatory legislation before it was effected, many merchants discontinued stamps, believing the bill would pass constitutionality tests. Unconstitutional cases of prohibitive levies such as this, combined with other lost cases of fair trade suits and escheat legislation, have built a body of evidence attesting to stamp legality and discouraging further legislative attempts. It would be extremely difficult to legislate stamps out of the Memphis market.

III. OPERATIONS

Since stamp company organization requires considerable leadership and capital, only stable companies have survived in Memphis' mature stamp market. Stamp companies, which are generally either independently owned or owned by chain supermarkets, use principally the same operational methods. They buy premiums wholesale, furnish advertising material to their retail vendors, and redeem the stamps in their redemption centers. Stamp companies in Memphis specify that their retail vendors issue one stamp for every full ten cents worth of goods purchased at retail, and encourage their retailers to "push" the promotion by giving stamps with every purchase.

Realizing that a merchant with (1) a highly standardized competitive product, (2) a good location on a main traffic artery or in a shopping center near other non-competitive retailers vending the same stamp, and (3) a small share of total area volume has the best chance for success; stamp company salesmen concentrate on selling retailers with one or more of these advantages. Supermarkets are acquired first; then "side account" merchants with less volume business are persuaded to join the program. High ethical standards, quality premiums, and centrally located redemption centers are essential to high redemption rates and continued success of stamp companies in mature markets, such as the Memphis area. Competition among stamp companies has considerably improved stamp operations in Memphis.

Retailers should consider atypical plans and alternative plans before deciding to adopt stamps. There are few atypical stamp plans (discount gasoline plans)in Memphis, and alternative plans, while usually less expensive and more easily controlled, generally do not produce volume increases equal to those produced by a popular stamp plan.

If, however, a merchant does not have a location or product adaptable to a stamp plan, an alternative plan may be a better investment for him.

IV. EXTRA STAMPING

The practice of extra stamping food products has become an important promotional asset for stamp vending food merchants in Memphis. Grocers are in a better position to benefit from extra stamping than most retail vendors because of their variety of products, their traditional use of leaders to attract trade, and their volume of business. The majority of the grocers interviewed believed that extra stamp coupons in the newspapers were more effective than equal cost price leader coupons, and all were satisfied with the results of extra stamping. Estimates based on records of both wholesale and retail grocers revealed that extra stamping had increased sales of specific items significantly (over thirty times normal sales in many cases). Grocers with a popular stamp, a large volume of business, location near heavy consumer traffic, and a knowledge of the many variables that affect extra stamping probably derive greater proportionate benefits from extra stamping than grocers without those qualifications. The acceptance and use of the item considered for extra stamping, the pricing policy used in conjunction with the promotion, the advertising and display used to call attention to the item stamped, the number of extra stamps offered, and the total number of items extra stamped at the same time are important variables involved in successful extra stamping. Quickly consumed impulse items with a high mark-up (such as bakery products) sold particularly well when extra stamped. Extra stamps on a "staple" product, however, such as sugar or flour, may be more effective than on the impulse items in attracting consumers to the store. Most grocers preferred to extra stamp those products selling between $.50 and $1.00 with fifty extra stamps and to display all extra stamped items.

Extra stamping through coupons in the newspaper can be used very effectively under present market conditions in Memphis to "pin-point" merchandise for movement and increase total store volume at the same time. Profitable private brands can be promoted and overstocking in specific products alleviated through extra stamping. Since food brokers and salesmen often pay part of the costs of this leader system, the idea when developed with an understanding of the many variables involved can lead to higher profits.

V. APPRAISAL

Trading stamps, which have been a controversial promotion, are an important element in the American economy and affect the economic status of merchants, consumers, stamp company employees, and possibly competing advertising firms. Quantitative studies and analysis indicate that trading stamps have not significantly increased (and in many cases have decreased) retail failures, retail prices, and marketing costs of premium merchandise. These studies, consumer acceptance, and the reversal of the stand of many large retail organizations from anti-stamp to pro-stamp, have given stamps a better environmental status in 1960.

Merchants should understand and consider the advantages and the disadvantages of the promotion, their own particular qualifications for a program, and the basis for evaluating stamp plans available. The principal advantages of stamps are: (1) They increase sales volume, (2) they increase good will, (3) they facilitate credit collections and (4) they prevent competitive immitation through exclusive agency agreements. The principal disadvantages of stamps are: (1) The costliness of the promotion, (2) difficulty of discontinuance, (3) problems involved in physical handling of the stamps, (4) complication of accounting procedures, and (5) degeneration of peaceful competitive relationships into retaliatory "wars". Retailers before adopting a program should examine (1) their location, (2) their type of store, (3) their type of product, (4) their capacity for increased volume, and (5) all alternative plans to stamps as well as stamp plans available. Stamp companies may be evaluated by their reputation, their popularity, their advertising for retailers, their contract with the retailer, and their redemption centers.

Studies made by the Agricultural Marketing Service and Indiana University professors have indicated that stamps do not raise prices enough to nullify the gains of premium acquisition by consumers. Evidence has been presented, too, that stamps have not become a substitute for other forms of advertising--that stamps have had little effect on the volume of other advertising (excepting promotional plans used to combat stamps).

The author feels that while stamps have considerably weakened the economic position of small appliance dealers and retailers in the food and gasoline fields who have not had the qualifications to benefit from the promotion, they have considerably helped many retailers increase their volume and operate more efficiently. Because stamps provide psychological satisfactions and possible economic gains to consumers, their popularity is justified. Stamps are a fair, legal, and competitively sound method of increasing sales in our economic system.

VI. SUBJECTIVE CONCLUSION

The trading stamp promotion(for stamp companies)is one of the cleverest businesses ever devised. Premiums are paid for long before they are delivered, there are few credit problems, and a third party helps perform the selling function and pays for the privilege. Few businesses, too, have the "hold" that stamp companies have over their paying accounts. Retailers who have had volume gains know specific examples of customers who patronize the store because of stamps and all feel that to discontinue their stamp program would be difficult.

It is easy to understand the resentment of many of the retail vendors. They work hard at their cash registers, creating a business for a third party who seems to enjoy great financial success, and who in practically all cases carries away the "lion's share" of the revenue obtained from the extra volume. He may rationalize that stamp company officials create no useful product, complicate customers' purchasing motives, and ship our money off to other marketing areas. It is difficult, too, for this retailer to analyze how far his demand curve has been shifted to the right by stamps and how far it has been shifted by the business cycle, his personality, and his better services. When a competitor across the street puts up the signs of a rival stamp company, both retailers may feel that they would be "better off" if stamps had never come to Memphis. Both stay in the program, however, realizing it would be competitively inexpedient to discontinue.

It is difficult for retailers without stamps to watch their former customers enter the doors of competing merchants. It is no wonder that these retailers joined the merchants who had adopted stamps only as a defensive measure in contributing funds to abolish stamps in Tennessee, even in the face of the overwhelming evidence of past legal cases.

It is also easy to understand the stamp official's point of view. He does have a legitimate, profitable business, and with his stamps he is doing marketing wonders for many retailers. The consumers like his stamps, and he regards the huge crowds at the redemption center and enthusiastic letters of testimony from merchants as strong justification of his position in the economy. He also rationalizes that he has provided jobs for many people and increased the volume of business activity by increasing transactions. Besides, he lives under the shadow of great risks that stamps may fade from the competitive picture through some concerted action of the anti-stamp merchants, a general decrease in consumer interest, or a changing economic climate. His promotion has passed the test of the marketplace, the courts, scholarly evidence, and competitors who are continually pushing him to better services.

The consumers in Memphis are pleased. The housewife feels that she is being frugal and enjoys the satisfaction of filling her book--an obtainable goal. Even if she thinks prices might be higher at stamp vending stores, stamps provide a way for her to save--to acquire premiums she cannot afford--or a subtle way to transfer value from man's wallet to lady's pocketbook. Extra stamps help her do this even faster. The children can enjoy a movie or a bowling evening by filling small "booklets" with stamps. The husband, who complains about his wife being duped by higher prices, often buys gasoline at stamp vending service stations to please her.

These, then, are many of the environmental attitudes, motives, and emotions that affect the stamp promotion in Memphis. It is, after all, attitudes that have shaped the history of stamps and given them success within the framework of our present retail climate. Consumer demand is law in our economy.

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APPENDIX

APPENDIX A

PROPOSED TENNESSEE LAW

"Item 106-A Trading Stamps. Each trading stamp company or agency doing business of selling, distributing, or giving away trading stamps or like devices in any county of this state, shall pay, per annum, in each county in which said company or agency does business, a privilege tax of $600.00. This shall in no wise apply to merchants or manufacturers who issue and redeem their own coupons."

"Item 106-B. Every other person, firm, or corporation who shall use in, with, or for the sale of any goods, wares, or merchandise any stamps, coupons, tickets, certificates, cards, or similar devices which shall entitle the purchaser redeeming the same with such purchase of goods, wares, or merchandise to procure from any person, firm, or corporation any goods, wares, or merchandise free of charge, or for less than the retail market price thereof, upon the production of any number of said stamps, coupons, tickets, certificates, cards, or other similar device, shall, before so using the same, for the privilege of doing such business, pay to the state for state purposes an amount equal to 2 per cent of the gross receipts derived from the sale. Within the state of Tennessee of all goods, wares, or merchandise with the state along with any stamps, coupons, tickets, certificates, cards, or other similar devices are delivered to the purchaser. Provided, however, that the provisions of this section shall not apply to the using of any stamps, coupons, tickets, certificates, cards, or other similar device, redeemable at their face value in cash or merchandise from the general stock of said merchant at regular retail prices at the option of the holder thereof; and provided, further, that the provisions of this act shall not apply to any coupon, ticket, certificate, card, or other similar device issued by a manufacturer or packer or their agents, free of charge or for any reasonable handling and mailing charge, or for any product of said manufacturer or packer free of charge or at less than the retail price thereof.

Said tax shall be payable and administered as provided in section 67-4315 through 67-4323 (effective from and after August, 1957.)

APPENDIX B

QUESTIONNAIRE FOR RETAIL GROCERS
ON EXTRA STAMPS

Chain - K - B.S. - N.T. - L.

Location ____________________

Manager ____________________

Size S - M - L

1. A. (Chain name) stores put extra stamp coupons in their newspaper advertisements each week. Do you sometimes put extra stamps on items yourself?

   B. (If yes) how often do you extra stamp items?
   (1) Daily____ (2) Weekly____
   (3) Monthly____ (4) Other (Specify
   ____

   C. (if yes) For what main purpose?
   (1) To promote non-food item sales____
   (2) To promote high margin items ____
   (3) To move "slow movers" ____
   (4) As a leader to get more people in the store ____
   (5) Other (Specify) ____ ____

   D. (If yes) How did you indicate to the customer that the product was extra stamped?
   (1) Tagged it at point of purchase ____
   (2) Circulars ____
   (3) Newspaper ____
   (4) Display ____
   (5) Announced in store ____
   (6) Other ____

   E. (If yes) Were the results of your extra stamping satisfactory to you?
   Yes____ No ____ Don't know____
   Why? (Find out if satisfactory or not in sales of units or in customer count and probe for specific records or remembered examples: Items, number of stamps on items, movement over "normal."

2. Does the extra stamping bring trade into the store that would have otherwise been lost?
   Yes____ No____ Don't know____
   Why? (Probe for examples)

3. In making up a newspaper advertisement or a circular advertisement would you include more extra stamped items than price leaders or more price leaders than extra stamped items?
(1) More price leaders? ____
(2) More extra stamped items ____
(3) Don't know ____
(4) Other ____
Why? (Probe--have you made up an ad like this?)

4. A. Do extra stamps move more of your slow moving, average moving, or fast moving merchandise in proportion to what you normally sell of that type "mover"?
Slow____ Average____ Fast____ Don't know____
(Probe: Any examples?)

B. Would you rather have extra stamps on: a slow mover, an average mover, or a fast mover?
Slow____ Average____ Fast____ Don't know____
(Probe: Why?)

5. Would extra stamps move a private brand or a national brand more in proportion to the average sales of that type brand before it was extra stamped?
Private____ National____ Don't know____
(Probe for reason)

6. A. Which one of the following type products would you put extra stamps on if you had to choose only one: Meats, cereals, canned goods, non-food products, produce, bread and bakery products?
(1) Meats____ (2) Cereals____
(3) Canned Goods____ (4) non-food products____ (5) Produce____
(6) Bread and bakery products____

B. What is your second preference? C. Your third?
(Probe: Why?)

7. A. How many extra stamps, 25, 50, or 100 would you put on an average item selling for 50¢?
25____ 50____ 100____ Don't know____

B. Selling for $1.00
25____ 50____ 100____ Don't know____

8. From your experience with all extra stamped items and case movements, how much more merchandise on the average would you say was moved over normal when 50 extra stamps were put on an item and advertised in the newspaper?
Record exact answer ____ ____ ____ ____
____ ____ ____ ____ ____ ____ ____ ____
(Probe: For records and specific examples)

9. The week after extra stamps are taken off of an item do sales of that item remain above average, drop down to average, or drop to below average (Average sales of that item before stamps)
Above average____ Average____ Below Average____
Don't know____

10. A. When extra stamps were put on a particular brand item, how did this affect sales of brands in direct competition with that item during that time?
(If necessary give example--Green Giant vs. Libby's peas)
Same____ Decreased____ Don't know____ Other____

B. (If decreased) About how much?
(Expressed in fractions or percentage)

11. Which of the following do you think would be the best way and second best way of the following three ways to introduce a new food product, a 50 cent seller, to the public through grocery stores?

(1) Display in the store with point of purchase advertising.
(2) Newspaper ad with coupon worth 11 ¢ toward purchase of the new product.
(3) Newspaper ad with coupon worth 50 extra stamps with purchase of new product____
1____ 2____ 3____

B. (If 2) How much more effective is the price reduction over the extra stamps? (get respondent to express in ratio or percentage).

C. (If 3) How much more effective is the extra stamping over the price reduction?

D. Any specific examples? (Probe)