1959

Trading stamps - their position and outlook in the Eastern Canadian retail food market

BOSTON UNIVERSITY

College of Business Administration

THESIS

Trading Stamps - Their Position and Outlook in the Eastern Canadian Retail Food Market

by

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(B. Com. Queen's University 1949)

Submitted in partial fulfillment of the requirements for the degree of

Master of Business Administration

1959

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Chapter 1

Introduction

Trading stamp plans are not new, having been in operation in the United States in one form or another since 1891 and in Canada prior to the year 1905.* Their popularity increased greatly in the United States since 1950 and in Canada since 1954. This has brought about a great expansion in the industry.

Like all forms of sales promotion devices, trading stamps have their detractors as well as devotees. Some retailers have accepted stamps as a legitimate and useful competitive tool while others have protested that the use of trading stamps in Canadian retailing is basically unsound and violates the spirit, if not the letter, of the trading stamp law. For every housewife who counts it as a boon there are others who consider it a bore.

Nuisance or not, trading stamps have proven to be a very potent sales promotion plan and unless the present section of the Criminal Code dealing with trading stamps is amended, it seems as if they are here to stay in Eastern Canada.

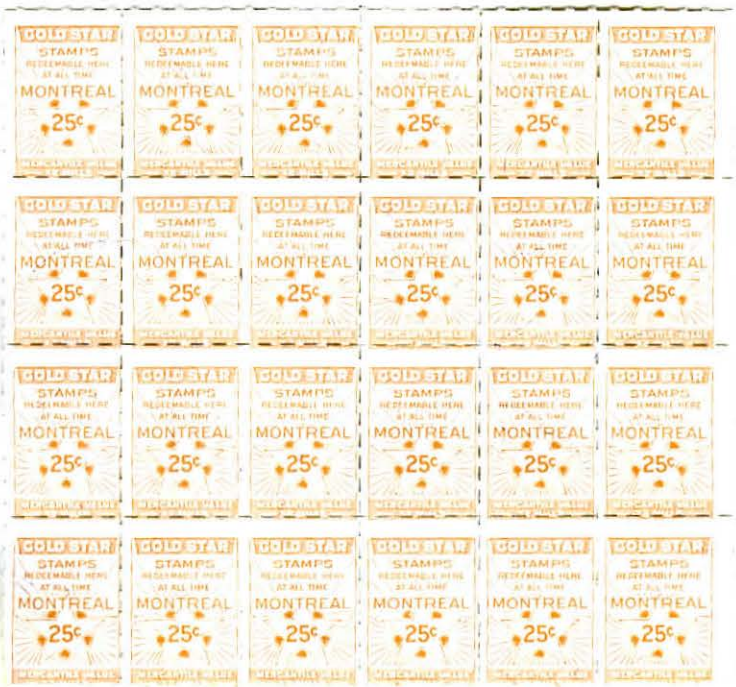
In a way this trading stamp craze is like Bingo. It has the same power to command mass participation, the same allure of something for nothing.

The device commonly recognized as a trading stamp is a small piece of paper inscribed with a trade name and/or symbol of the company issuing them and with the value at which they are merchantable (usually

* 62, pp 22-24

Figure I

Trading Stamps



one or two mills) on their face (see Figure I). They have adhesive on the back so that consumers may paste them in the stamp books provided by the company for that purpose. Other terms used by firms operating this plan have been: gift stamps, discount stamps, savings stamps, thrift stamps, and premium stamps.

<u>Development of Premiums and Trading Stamps</u>

The first systematic premium plan is credited to the B. T. Babbit Company. Beginning in 1851, they placed a coupon inside the wrapper of its soap. These coupons could be exchanged for pictures after enough were accumulated.

The first retailer to give premiums to the consumer was the Great Atlantic & Pacific Tea Company. In the 1860's this company began giving chromos, glassware, and majolica ware as premiums.*

The trading stamp made its first appearance in 1891 at Schuster's Department Store in Milwaukee, Wisconsin. It was first known as the Blue Trading Stamp System. After the customer had filled a book with stamps it could be turned in for merchandise. In 1905 the name was changed to Schuster Stamps and customers were allowed $1.00 in merchandise or $.70 in cash for a book of 500 hundred stamps representing total purchases of $50.00.**

The Sperry and Hutchinson Company, founded in 1896 and incorporated in 1900, developed the concept of the trading stamp company as an independent business. The company believed that stamps would be more

* 24, pp 27-28
** 3, p 13

valuable to all concerned if several stores used the same stamps. It was designed as a promotional tool for the merchant and a discount for the consumer. The stamp firm provided the stamps, premium catalogues, stamp books, and the premium merchandise to those adopting their plan.

The introduction of this new system brought immediate success and today Sperry and Hutchinson is the oldest stamp firm in the United States and probably the largest, having grown to the point where more than 60,000 retailers use its cooperative cash discount service and where about 20 million people save its stamps. Its exact volume of business is unknown but in 1956 this company grossed more than $100 million. Further, it had to print 34 million copies of its Diamond Jubilee catalogue, the largest printing single order ever placed in the history of business publications.*

This initial success was followed by the increased use of stamps by retailers and by an increase in the number of stamp companies. The most common types of retailers using stamps were small grocers, gasoline stations, service establishments, and hardware stores.

When these first programs were developed in the United States, commercial buccaneering was not uncommon. Many stamp firms sold stamps with no intention of redemption. Redemption provisions were not satisfactory, and many premiums were inexpensive items of little value to the stamp saver. As in our present parallel, many of these entrepreneurs found their way into Canada. It was at the turn of the century when trading stamps invaded the business life of Canada. In the United States

* 46, p 124

these problems handicapped the industry for several years but in Canada it resulted in the elimination, for many years, of trading stamps. Representations to the Federal government were made by the many Boards of Trade and the Retail Merchants' Association of Canada, Inc. and in 1905 the Criminal Code was amended, prohibiting the use of trading stamps in Canada.

Historical Growth

Over the years, the prohibition of trading stamps in Canada has been effective. There are few reported legal decisions dealing with trading stamp offences and it is a matter of common knowledge that stamps were all but unknown until 1954.

In the United States opposition by retailers to trading stamps as a sales promotional device was first begun around 1900. The opponents tried to prohibit all forms of premiums but failed to accomplish their objective. Just prior to World War I legal action was again undertaken. The most important change resulting from this action was to have some states require that a cash value be stated on the face of the stamp. Also, the state of Wisconsin required that the stamp be redeemable in cash.

The passing of the Robinson - Patman Act* and the Miller - Tydings Act** seemed to aid the growth of stamps in the United States. The Robinson - Patman Act eliminated many price concessions granted by manufacturers in their competitive struggle. This resulted in some

* 73, p 1526
** 72, p 693

manufacturers turning to other forms of competition. One of the latter was to include premiums in their merchandising programs. Further, the large retailers' inability to obtain huge cost differentials tended to bring the price differences at the retail level within a smaller range. Retailers now sought other means to attract patronage other than by price. The Miller - Tydings Act dealt with resale price maintenance. Because of the resulting price rigidity some retailers turned to non-price attractions to gain patronage.

During World War II stamp firms in the United States suffered a major set back. The cause of the stamp firms' difficulties was the scarcity of retail merchandise and the imposition of price controls by the government on many items. As a result, some firms went out of business and others had to operate on a reduced scale. Those stamp firms possessing cash redemption features survived this period better than most.

Trading Stamps Today

There was at least one stamp firm in operation in Canada in 1952. However, its sales volume was negligible. Today there are at least 18 stamp firms operating in Eastern Canada. The head offices of the majority of these firms are located in the Province of Quebec. It has been reported that 2,000 premium schemes were in operation in Montreal and 8,000 in Eastern Canada.*

The boom in trading stamps appears to be heaviest in the Ottawa Valley, Quebec, Toronto, and the Maritimes. The majority

* 27

of trading stamp users are found in the food field but a few clothing stores, drug stores, and service stations have adopted stamps.

In May, 1956 the Gold Bond Stamp Co., an American stamp firm, began operations in the Ottawa Valley. Their stamp plan was inaugurated in 95 I G A stores. In October of the same year, Loblaw's Ltd., Dominion Stores Ltd., and Steinberg's Ltd. announced their own stamp plans in the Ottawa area in order to meet this competition. In July, 1957 the chain food stores decided to leave the stamp field in this area. However, they still remained in premium promotion. Instead of trading stamps, they are now using cash register tape plans.

During these years, many retailers argued strongly against trading stamps as a promotional device. These retailers opposing stamps reiterated over and over that these plans were operating against the present law and therefore illegal. It was in the western provinces that trading stamps met their greatest opposition. A few retailers using trading stamps were prosecuted in Manitoba and all were found guilty. As a result, stamp plans are no longer found in this province. However, the provincial governments of Ontario, Quebec, and the Maritimes have taken no action against retailers using stamps or trading stamp firms. The attorneys-general of these provinces feel that an amendment to the Criminal Code is needed in order to overcome the technical weaknesses in the present law. Also, the Federal Department of Justice has announced that it will not amend the law until it is tested in the higher courts.

In January, 1957 a national organization of Canadian trading stamp companies was formed. This organization, known as the Canadian

Premium Stamp Association, originated as a result of the determined opposition of the Retail Merchants' Association of Canada, Inc. towards stamps. There are seven charter members: Universal Coupon Co. Ltd., Superior Premiums Ltd., Theatre Premium Inc., Gold Star Stamp Co. Ltd., United Dominion Promotion Sales Ltd. all of Montreal and Lucky Bonus Trading Co., and Superior Sales Ltd. of Toronto. The chief function of the association, which is under the leadership of a public relations counsel, is to combat the opposition to stamps and premium promotions.

The growth of premium promotions or the trading stamp industry cannot be accurately computed because of the lack of cooperation of the firms engaged in this type of sales promotion. Part of the reason may also be attributed to the fact that many Canadian retailers need not publish financial figures under Canadian corporation law. Although total sales may be had for the other food outlets, a breakdown of sales for those areas where premiums or trading stamps are used is not available.

The following information was obtained from the Gold Star Trading Co. Ltd., believed to be the largest independent stamp firm in Eastern Canada, if not in all Canada. It has more than 7,000 retail outlets using its stamp plan.

In a survey conducted by their staff, they estimated that of approximately 12,000 retail outlets in the greater Montreal area, about 4,000 of them have a premium plan. These retail outlets, having total retail sales of approximately $726,705,000 in 1957, are issuing premiums of one type or another. The total retail sales for this area in 1957 amounted to $1,211,175,000.

In 1955 this company increased its sales 317.6% over its 1954 sales; in 1956, sales increased 138.6% over 1955 sales; and in 1957, its sales increased 62.7% over 1956 sales. As at November, 1958 the sales for 1958 were approximately 20% ahead of 1957 sales.*

In mid-January, 1959 the majority of the chain food outlets in the Province of Quebec began issuing trading stamps. The cause of the rush into stamps by the food chains was the taking on of a trading stamp plan, the Gold Bond Stamp Co. Ltd., by the 132 I G A stores located in Quebec.

Steinberg's Ltd., heading off any competitive advantage, announced immediately that it had signed with T N T Premium Ltd. to offer stamps at its 63 Quebec stores. Two days later, Dominion Stores Ltd. and its wholly owned subsidiary, Thrift Stores, began issuing stamps. Dionne's Ltd., after evaluating different premium promotional schemes, adopted the stamp plan of the United Trading Stamp Corp., Philadelphia, a newcomer to the Canadian stamp field. A & P Stores Ltd. are still continuing their opposition to stamps by emphasizing price.

The important question now is: What is going to be the attitude of the provincial government of Quebec towards stamps? Up until now, the small retail stores have been using stamps to offset many advantages enjoyed by the food chains. The food chains may well be nervous about the stamp question, as provincial policy has always been to support the small local store whenever possible. The general feeling in government circles is that in the near future a test case against stamps will soon

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be brought against one or more of the food chains. If government intervention does not occur, it is expected that the use of trading stamps will expand greatly.

In the United States, the growth of trading stamps was largely due to the taking on of stamps by supermarkets. They were first used in 1951 by a Denver, Colorado supermarket with satisfactory results. In the next few years many retailers entered the stamp field. Although important in all types of convenience goods retailing, supermarkets have carried the boom.

By the end of 1956 close to $35 billion of retail sales were covered by trading stamps and approximately 20% of retail sales were made by retailers using some form of a stamp plan. It was estimated that close to 400 companies were in the trading stamp business with an established sales volume in excess of half a billion dollars and premium redemptions running in the vicinity of $480 millions at retail list price for premiums.*

In a report recently issued by the United States Department of Agriculture, it was estimated that about 42% of the nation's retail outlets now have trading stamp programs of some kind. Of the 10 top retail food chains eight have adopted stamps.**

Reasons for Recent Expansion of Trading Stamps

The question which seems to demand an answer is: why should premium promotion have gained such headway in a time of prosperity? It

* 46, p 124
** 76

would seem that give-away schemes would make sense only in times of depression. However, this proposition ignores many factors. Prosperity itself leads to higher costs of doing business and greater investments in inventory and facilities. In addition, the combination of an expanding market, higher profits, and the availability of capital for expansion leads to the establishment of many retail outlets, resulting in some areas in too many stores, and therefore a higher degree of competition.

All retailers are affected by these factors but those hurt the most, in many instances, are the marginal retailers. Also, as the fixed costs of most retail operations -- rent, labor, public utilities, etc. -- are rising, the only means of maintaining profits is by increasing sales.

The development of shopping areas is still another reason for the growth of premium plans. The use of the automobile has created a wider trading area and shopping centers today compete over a several mile radius with smaller neighborhood supermarkets, specialty food stores, and other markets.

Another factor contributing to this growth is the fact that most retailers, especially food stores, have become standardized in their appeals to customers. Early attempts to attain volume were accomplished through lower prices. This method was effective against smaller stores but eventually other supermarkets became the chief competitors. As a result, prices tend to uniformity and therefore price competition has become less and less important.

Originally supermarkets were known as low margin-high turnover operators. It had always been taken for granted that sales promotional activities were costly and therefore premium plans were not adaptable to supermarkets. However, as the number of items increased from 2,000 to well over 5,000 items per store, handling costs rose, inventory costs went up, and most important of all, turnover slowed down. In order to attract more traffic into the store, the operators found themselves in the position of having to devise more and more sales promotional activities. Low margin and high turnover started to give way slightly to a wider margin, slower turnover type of operation in which services tended to be the most distinguishing feature.

Supermarkets broadened their appeal by opening larger and more attractive stores, introducing carry-out service, longer store hours, larger parking areas, air conditioning, wider product assortment, all sorts of advertising campaigns, circus-like promotions, etc. As these changes in practices, facilities, or services became more generally adapted, they too lost much of their promotional value.

The use of premiums caused some of the smaller retailers, without the capital or managerial ability needed for premium promotion, to turn to stamp plans as a means of combatting this competition.

Further, once a plan has been introduced into a market area, it tends to be self-generating. Competitors imitate the idea. As consumer interest grows, more pressure is put on the retailer to make premiums available, especially if price increases are nil or negligible in the store offering them. This competitive effect encourages others to adopt premiums.

Consumer Interest in Stamps

Premium plans appear to be very attractive to young married couples and families having two or more children. Both of these groups have generally the greatest amount of personal debt and therefore have many wants which have not as yet been fulfilled. By saving stamps and redeeming them, additions to the household needs can be made without any apparent expenditures of money. The larger the family, the greater will be the pull of these plans because their large weekly food bill enables them to fill the stamp book quickly. Older people's needs are fewer and their volume of purchases are considerably smaller than these other groups.

The president of a major stamp firm believed that approximately 60% of the families in the Montreal area were saving either trading stamps or cash register tapes. From the past experience of the company, it was estimated that the housewife saving stamps received two to six premiums a year as she was able to amass eight to 15 stamp books a year. The company has given out about two million premium catalogues to stamp savers. The company expects 90% or more of the stamps it issues to be redeemed for merchandise. Premium redemption is approximately 10,000 items per week.*

When Steinberg's Ltd. operated a cash register tape plan exclusively, it reported premium redemptions ran unusually high, about 92%.**

From the many surveys made on consumer participation in the

* 104
** 108

United States, it is generally agreed that over 50% of the families are saving stamps of one kind or another. A study made late in 1956 showed that 82.5% of all families in a midwestern city were saving some sort of stamps. However, in addition to the 17.5% of non-users, there was at least 37.5% whose interest in stamps was passive. Of the remaining 45% about half could be classified as aggressive in their attitudes towards stamps and the remaining half had a somewhat less intense interest in stamps.*

Purpose of This Study

This is a study of the trading stamp system with the chief emphasis on the aspects that are important to the retail food trade. It is an analysis of the methods of operation, the advantages and disadvantages of stamp plans, and the results obtained by some retailers using trading stamps and other premium promotions for promotional purposes.

The purpose of this study was (1) to provide information about the use of trading stamps, (2) to analyze the factors important to the success or failure of a stamp plan for retailers, and (3) to show the intent and nature of the controversy concerning the use of trading stamps by Canadian retailers.

Sources of Information

Much of the basic material was obtained from United States sources. These include trade publications, academic reports,

* 2, pp 57-88

an executive of a stamp company, government reports, newspapers, booklets, pamphlets, and periodicals. Canadian material was very limited. To obtain information on the latter, my efforts were directed to stamp company officials, federal and provincial government departments, retailer and consumer associations, retailers concerned with stamp and premium plans, trade publications, newspapers, and periodicals. My approach was to seek facts about (1) practices of stamp companies, retailers using stamp and premium plans, and their competitors, (2) effects of stamps on retail operations, (3) other premium promotion plans. The information was obtained by correspondence, a search of trade publications and government reports, and through personal interviews.

Data used in the preparation of this report have been obtained from business firms, a few of which have asked to remain anonymous. Except in a few instances the sources of information used here have been fully identified.

All retailers with three or more food outlets in Eastern Canada were contacted as well as all known trading stamp firms in this area. Of the 27 firms contacted, I received nine replies. Contact was made with all firms or associations believed to have information concerning this subject, whether located in Canada or the United States.

Although the study was primarily concerned with the use of trading stamps for retail promotion, other premium promotions used by manufacturers and wholesalers were given some consideration.

Chapter 2

Legal Aspects of Trading Stamps

The British North America Act allows each business the freedom to compete with other similar enterprises. Any technique to increase the competitive effectiveness of a company or industry has a presumption of lwafulness. If such techniques are to be made void or to be limited, we must look to either what is known as common law or to statutes passed by the Dominion or Provincial governments. As far as it is known, trading stamps are approved under common law. Therefore, in Canada, the legal attacks on trading stamps are based on the statutes passed by Parliament.

Trading stamps first appeared in Canada about 1895. When these plans were introduced, dishonest entrepreneurs were not uncommon. Many trading stamp firms failed to fulfill their obligations. It was a common occurrence for consumers to find that these companies had disappeared when they went to redeem their stamps for premiums. It was therefore only natural for opposition to these plans to develop. The most influential groups were the many Boards of Trade and Retail Merchants' Associations throughout Canada. As a result of their representations to the government, the original sections of the Criminal Code prohibiting trading stamps was enacted in 1905.

Criminal Code of Canada

The trading stamp bill provoked lengthy debates both in the House of Commons and in the Senate. Those supporting the bill argued that the use of stamps was an instrument of fraud and thus unfair competition. During the discussion in the House of Commons the following was said:

Mr.Kemp: Certainly some remedy should be applied to this abuse. These trading stamp companies, small and insignificant as they are, are permitted to do what no other kind of financial corporation can do. They are permitted to circulate money. This trading stamp resembles a postage stamp. They are sold at five dollars for a hundred dollars face value. The merchant hands them out to his customer and they get into circulation that way. When a customer gets a hundred dollars' worth he can go and exchange them for some article valued at from twenty-five cents to a dollar. He never gets anything worth five dollars. A greater evil is this, that a great amount of these stamps are never redeemed. Very few people can get a hundred dollars together. The people who have been deceived into taking these stamps are generally poor people, and it takes them a long time to collect a hundred dollars. Where the tremendous profit of the trading stamp companies comes in is due to the fact that the stamps are never redeemed. Then when the people present the stamps at the store they will be told that the store is out of goods but some are expected in a few days, and in the end the trading stamp agent gets away without paying anything.*

Mr. R. L. Borden: ...I would recognize legislation against the principle of lottery as very wise, but it does not seem that this legislation proceeds on that basis. It is not framed from the standpoint of the purchaser, but from the standpoint of the vendor, and its object is to prevent the trading stamp proprietor from receiving a portion of the vendor's profits. I am not objecting to that. The evil may be so great as to require legislation, but let us understand the principle on which we are acting. If it is intended to prohibit lotteries we should go further.

Sir Wilfred Laurier: I do not now dispute anything stated by my hon. friend (Mr. R. L. Borden). But we are dealing with an evil that exists. It may be that if we dealt with all covered by this principle, we should go further than we are now going. But we are now dealing with a lottery which has invaded every city and town in Canada, in the form of these trading stamps. The object of this legislation is to reach this form of lottery; and we think we have done it and will stamp it out. If any other evil....

Mr. R. L. Borden: In what way does the right hon. gentleman (Sir Wilfred Laurier) say the principle of lottery is involved.

* 68, col. 9432

Sir Wilfred Laurier: It induces people to pay money with the prospect of a chance to draw a prize.*

Mr. MacPherson: The merchants were buying trading stamps and virtually handing over the profit of their business to this trading stamp vendor. The result is that we have many failures in Vancouver. The system was nothing more or less than a piece of blackmail - that is all the trading stamp business is.**

The section of the Criminal Code which defines trading stamps is 322 (b) and it reads as follows:

> 322 (b) "trading stamps" includes any form of cash receipt, coupon, premium ticket or other device, designed or intended to be given to the purchaser of goods by the vendor thereof or on his behalf, and to represent a discount on the price of the goods or a premium to the purchaser thereof
>
> (i) that may be redeemed
> (A) by any person other than the vendor, the person from whom the vendor purchased the goods, or the manufacturer of the goods,
> (B) by the vendor, the person from whom the vendor purchased the goods, or the manufacturer of the goods in cash or in goods that are not his property in whole or in part, or
> (C) by the vendor elsewhere than in the premises where the goods are purchased; or
>
> (ii) that does not show upon its face the place where it is delivered and the merchantable value thereof; or
>
> (iii) that may not be redeemed upon demand at any time,
>
> but an offer, endorsed by the manufacturer upon a wrapper or container in which goods are sold, of a premium or reward for the return of that wrapper or container to the manufacturer is not a trading stamp.***

* 68, col. 9433
** 68, col. 9434
*** 67, p 106

Section 369 deals with the issue and sale of trading stamps and it reads as follows:

> 369 (1) Every one who, by himself or his employee or agent, directly or indirectly issues, gives, sells or otherwise disposes of, or offers to issue, give, sell or otherwise dispose of trading stamps to a merchant or dealer in goods for use in his business is guilty of an offence punishable on summary conviction.
>
> (2) Every one who, being a merchant or dealer in goods, by himself or his employee or agent, directly or indirectly gives or in any way disposes of, or offers to give or in any way dispose of, trading stamps to a person who purchases goods from him is guilty of an offence punishable on summary conviction.*

These sections have not been altered since their enactment in 1905.

The parliamentary discussions indicated that this law was intended to eliminate trading stamp plans organized and promoted by trading stamp companies. At the same time Parliament wished to retain for manufacturers, wholesalers, and retailers the sales promotional device of issuing premiums by means of coupons, box tops, etc. attached to their products. Therefore, the definition of trading stamps excludes the type of premium or discount plan employed by retailers, wholesalers, or manufacturers in 1905. It is due to these exempting provisions that the present day trading company is allowed to operate.

The trading stamp bill specifies that the stamps can only be redeemed by the seller of the goods from whom the stamps were obtained. The consumer, on redemption, by making a written declaration to this

* 67, p 123

effect meets the requirement of S. 322 (b)(i)(A). The plan also states that the premiums are the property of the retailer and that the purchase of the premiums by the retailer is an essential part of the plan. This meets the requirement of S. 322 (b)(i)(B). The stamps issued by the trading stamp companies indicate on their face their place of issue and merchantable value as stipulated in S. 322 (b)(ii). All stamp plans state that the stamps are redeemable at any time as required under S. 322 (b)(iii). The stamps need only bear the name of the trading area where they are issued and not the municipal address of the seller distributing the stamps, due to the ambiguity attached to the word "place" as used in this section. It is because of these exempting provisions in the present bill that many in the legal profession feel that the present type of trading stamp company, adhering to the above conditions, does not violate the Criminal Code.

Some of the earlier plans established were vulnerable to prosecution, mainly due to the lack of care in their preparation. This was so in the first prosecution tried in Manitoba. The stamp company, in this instance, put its plan into operation before the "place" had been printed on each stamp. Again, a fine of $1.00 was levied on the Gold Star Trading Company Ltd. for having the premium delivered directly to a consumer instead of to the merchant.*

When the revised Criminal Code was being considered by Parliament in 1954, the trading stamp promoters made representations urging the repeal of the present provisions. The Government and Parliament of

* 104

Canada did not act upon these representations and maintained the sections of the code dealing with trading stamps.

Court Cases

The enforcement of the trading stamp law falls upon the provincial attorney-general of each province. In this respect some provinces are perhaps more tolerant than others. From the location of the majority of the cases against trading stamps, it appears that the western provinces have taken a more positive stand against this type of operation than their eastern counterparts.

During the period 1905 - 1955, there are only a few reported legal decisions dealing with trading stamp offences. The following are reported under section 322 (b):

> (B. C.) R v Smith, (1932), 1 W. W. R. 131: The particular form of the plan is not stated. The conviction was confirmed on appeal but the fine was reduced.
>
> (Alta.) R v Western Automobile Club, Ltd., (1934), 2 W. W. R. 431: The club supplied coupons to garages under a contract and the garagemen, as agents, distributed the coupons to members. The coupon read, "Expires February 1, 1935. Good for Two Cents on any cash purchase except gasoline, at all Garages and Service Stations of the Western Automobile Club Ltd. " The conviction was once again affirmed on appeal. The Court said:
>
> "Regarding the objection that the provision of the Criminal Code is ultra vires as being beyond the jurisdiction of the Dominion Parliament, I find it has been

> in the statute for many years and its validity has never been questioned by any Court so far as I am aware. It appears to me to come within the domain of criminal law allotted to the Dominion Parliament by the British North America Act of 1867."

(Sask.) R v McManus, (1938), 71 C. C. C. 47: The appeal in this case was also dismissed. The Court said that, on the evidence submitted covering the transactions in question, it is plain that the accused gave these premium slips to those who purchased his goods knowing that they would be redeemed, and intending that they should be redeemed, not by himself as the manufacturer of the goods, but by the Elite Studio. Therefore, premium slips disposed of in this manner are "trading stamps" within the prohibition of this section of the code.

In 1957 the city of Vancouver refused a license to the Gold Seal Stamp Holding Ltd. to operate in that city. At the same time, the nearby city of Victoria announced that any merchant using trading stamps would be prosecuted under the Lotteries Act.*

During the last two years the Province of Manitoba has rid itself of trading stamps and cash register tape plans through the prosecution of merchants using these types of retail promotional plans. Of the cases tried, the following two are probably the most important.

In the first case to be discussed, the main point decided was whether or not the Primax stamps in question were "trading stamps" strictly within the meaning of the Criminal Code. At the time of the trial all the conditions, as previously outlined, were carefully followed

* 36, p 2

by the trading stamp firm issuing the Primax stamp. The magistrate, Mr. Maris H. Garton, ended his summary of the evidence presented thus:

> "The address 'St. Boniface, Manitoba' is in my opinion far too wide in the territory it covers to be considered as the place of delivery of the stamp. If such an address were to be considered sufficient then these stamps could be issued in every store and shop in the City of St. Boniface and redeemed in any of them whether they had been issued or delivered by the redeeming vendor or not which would clearly defeat the intention of Parliament in enacting its prohibition against trading stamps. I find, therefore, that the Primax Stamps in question are trading stamps within the meaning of the Criminal Code...."*

In the second case a Manitoba magistrate, Mr. W. Edwards, has stirred up yet another premium controversy. A Selkirk, Manitoba storekeeper was fined $10.00 by Magistrate Edwards when the latter declared that the cash register tapes which the storekeeper had issued were actually trading stamps. The reason was that the customer had to save a certain amount of cash register slips before they could be redeemed. The magistrate declared that the tapes would not have been considered trading stamps if they had been redeemable for cash or goods at any time or at any amount.**

The above case is the first legal action on cash register tapes and it is not easy to say whether it will be used as a precedent in any future action in other provinces.

Legal Aspects of Stamps in the United States

The use of trading stamps in the United States has also resulted

* 78
** 28, p 7

in many discussions in the legislative branches of the municipal, state, and federal governments. Probably the first court case involving trading stamps dates back to 1897, Lansburgh v District of Columbia, 11 App. D. C. 512 (1897).*

The many attempts at restriction or prohibition of the use of trading stamps could be summarized under the following forms: (1) outright prohibition; (2) the imposition of taxes or regulations so oppressive that the use of trading stamps as a practical matter became impossible; (3) the classification of trading stamps as a "gift enterprise," making their issuance a violation of laws prohibiting gift enterprises. For the most part legislation of this type has been declared unconstitutional because it violates the due process or equal protection clauses of the Constitution or were based on classification which were unreasonable or purely arbitrary.

There has also been a huge amount of litigation trying to curtail the use of trading stamps under resale price maintenance laws, unfair practice or sales acts, and motor fuel practices or sales acts. These actions have also been defeated because trading stamps have been held to be a legal cash discount, the cost of the trading stamp is included in the statutory markup, the intent to injure or destroy competition was not established, or the acts were found to be unconstitutional in their entirety or as applied to trading stamps.

The Federal Trade Commission announced on October 3, 1957 that it had concluded, after an intensive investigation of the trading stamp business, that in itself there was no violation of any of the

* 3, p 124

Federal anti-trust laws, and that no complaints would be issued with respect to any of the specific practices of the business. In January, 1958 the Securities and Exchange Commission also ruled after a similar study that trading stamps should not be registered as "securities" subject to S E C regulation.*

As to regulations now in effect, the use of trading stamps in any way is prohibited in the state of Kansas and in the District of Columbia. In many states redemption in cash or merchandise, at the option of the holder, is required. In the state of Wisconsin stamps can only be redeemed in cash. A prohibitive tax is levied in the state of Washington when trading stamps are redeemed for merchandise. However, the tax does not apply to the issuance of stamps redeemable in cash.**

The state of Massachusetts recently drafted legislation to control the operation of trading stamp companies. This new legislation covers trading stamps or any similar device issued in connection with retail sales as a cash discount or for any other marketing purpose. The bill states:

(1) that stamps must have their cash value legibly printed on their face,

(2) the holder has the option of presenting the stamps for redemption in cash in a number having an aggregate cash value of not less than 25 cents or using the stamps for merchandise offered by the trading stamp company involved,

(3) the stamp company must register annually with the State Treasurer and must include in its report

(a) a list of places at which its stamps would be redeemed

* 18, pp 17-21
** Ibid.

(b) a balance sheet as of the last fiscal year, certified by an independent public accountant,

(4) a surety bond ranging from $25,000 to $100,000 would be required of all companies doing business in the state,

(5) no stamp company may cease or suspend redemption of trading stamps in Massachusetts without a 90 day notice to the State Treasurer and a similar notice sent to each Massachusetts retailer who has at any time, within one year, issued the company's trading stamps,

(6) penalties of up to a $1,000 fine or one year's imprisonment or both are provided for violations of these provisions.*

Summary

In a review of the legal situation it can be stated that to come within the definition of a trading stamp, as set forth by Section 322 (b), it must be any form of cash receipt, coupon, premium, ticket, or other device:

(a) which may be redeemed by any person other than the vendor or manufacturer,

(b) which may be redeemed by the vendor or manufacturer in cash or in goods which are not his property in whole or in part,

(c) which may be redeemed by the vendor elsewhere than in the premise where the goods were purchased,

(d) which does not show upon its face the place where it is delivered and the merchantable value thereof,

* 71, pp 528-530

(e) which may not be redeemed upon demand at any time by the holder.

The attorneys-general of the provinces have not been consistent in bringing to the courts those engaged in trading stamp operations, even though the same law applies to all provinces. In many parts of the Maritimes, Quebec, and Ontario trading stamp plans are in operation, yet no prosecutions have resulted. The attorneys-general of these provinces are of the opinion that an amendment to the Criminal Code is needed before there can be enforcement of the law on trading stamps. Yet to date, every prosecution under this law has been successful.

Until a test case is carried to the Supreme Court, the ambiguities existing in the present bill seem destined to remain with us. At present it appears doubtful if such a case will be heard in the near future. The organizations opposing trading stamps, although still against their use, seem to have relaxed their campaigns during the past year. However, the recent outburst of trading stamps in Quebec may change this attitude. The trading stamp firms seem to be contented to expand and solidify themselves where they are now "accepted." It is doubtful if these companies will try to test the present bill unless they are prosecuted in their present areas of operation. Finally, the Minister of Justice has stated that his department will not consider any amendment to the section of the Criminal Code dealing with trading stamps unless the present law is tested.

In general, the future of trading stamps is not destined to be determined by the economies of competition and business efficiency but will be handicapped in some areas due to the present interpretation of the statutory restrictions.

Chapter 3

Associations Opposed to Trading Stamps

Opposition to trading stamp plans has come from producers, industry, business, and consumers. It was so when these plans were first introduced about 1900, and again in 1956 when trading stamps once again invaded the retail field. The various organizations and associations leading this campaign were instrumental in having the present law incorporated into the Criminal Code. When they became aware of the revival of trading stamp plans in 1956, they once again took steps to suppress their expansion. This suppression of stamps was attempted through their own trade papers, newspapers and periodicals, and submissions to local, provincial, and federal governments.

The groups opposing trading stamps include the Retail Merchants' Association of Canada, Inc., the Canadian Association of Consumers, the Canadian Labour Congress, the Better Business Bureau, the Retail Industry of Canada, the Canadian Federation of Agriculture, The Canadian Pharmaceutical Association, the Canadian Retail Druggists' Association, the Co-Operative Union of Canada, manufacturers, wholesalers, and distributors, and many other local organizations.

Their present objective seems to be the confinement of stamp plans to their starting areas and ultimately of course to their entire elimination. The former is probably due to the phraseology used in the trading stamp law which has caused differences of opinions among the provincial attorneys-general concerning the weaknesses in the present statutes.

In this chapter, I have selected to present the views of the three most prominent associations which have opposed trading stamp plans. I do not wish to comment on any of the opinions expressed by these associations as I believe that the answers to any questions which may arise will be found in other chapters of this dissertation.

<u>Retail Merchants' Association of Canada, Inc.</u>

The Retail Merchants' Association was founded in 1896 and was incorporated by a special Act of Parliament in 1910. It represents all independent retailers in all provinces regardless of their trade classification. It differs from the Canadian Retail Federation in that the latter represents for the most part the larger corporate retail outlets while the association represents mostly the smaller independent merchant. It is a voluntary, non-profit organization with a representation of approximately 30,000 retailers which represents about one-fifth of all retail outlets in Canada. Its primary objective is the promoting of the welfare of retailers, raising the standards of service to consumers, and establishing a high standard of business ethics among all those engaged in the retail trade.

The initial program of the association when trading stamps reappeared was:

(1) to seek law enforcement by the provincial attorneys-general,

(2) to educate consumers and retailers to the social and economic evils inherent in trading stamps,

(3) to request the government for law amendments if the present statutes are found to be ineffective or inoperative against present day trading stamp plans.*

In an address given by Mr. D. A. Gilbert, Past President and General Manager of the association, their feeling are very strongly expressed as is noted in the following:

> "Trading stamp companies traffic in stamps: premiums are the lure to SWEETEN THE POT. These companies have NO INTEREST, whatsoever in the MERCHANDISE the RETAILER sells; neither do they MANUFACTURE or PRODUCE. Their interest is simply selling stamps. Moreover the stamp companies' PRIMARY AIM is to FASTEN their TENTACLES to the FOOD RETAILER. Their business is the EXPLOITATION of nothing more or less than a CUNNING DEVICE; with NO STOCK IN TRADE but that DEVICE and the necessary books and stamps and so-called premiums with which to operate it successfully, they have INTERVENED in the LEGITIMATE BUSINESS carried on between SELLER AND BUYER, not for the advantage of either, but to PREY UPON BOTH...."**

The association feels that while trading stamp plans are not in themselves lotteries, they are based upon the same attraction, the chance of something for nothing. Their success is attributable almost entirely to this characteristic. The advertising of trading stamp companies deceives consumers into the belief that they will obtain free gifts. Therefore these plans are as fully damaging to public welfare as lotteries, for in the latter the buyer knows that he is taking a "chance" on something for nothing while trading stamp firms create the impression that the customer is getting something for nothing.

The association is of the opinion that trading stamps cannot be compared to legitimate advertising, as they do not terminate upon the

* 22, p 8
** 12, p 3,4

bringing together of buyer and seller, with the profit of one and the desire of the other satisfied. They contend that the main purpose of these plans is to divert the buyer's attention from the basic considerations of quality and price. To solicit the possible support of the Sales and Advertising Clubs, the association notes that some stores, in order to offset the cost of the stamp plan, are attempting to reduce operating expenses by a reduction in their advertising budget.

They believe that any discount for cash purchase should be reflected in price, not in stamps or give-aways. Besides the customer does not receive a discount of two or three per cent for this is just another clever argument presented by the stamp company. The money is paid to the stamp firm and the customer receives only a promise of reward if he can manage to save enough stamps. Trading stamps therefore perform no service for the retailer, offer no real benefits to the consumer except higher prices, and benefit only the stamp companies through large profits.

The explanations given by trading stamp companies with regard to unredeemed stamps, the association feels, enters the realm of make-believe. They are firmly convinced that a large number of trading stamps are never redeemed and that fantastic profits are accruing to these companies by this means. This unearned profit results at the expense of the retailer who must pay for all his stamps, receiving no refunds or rebates for non-redemption.

The association quotes parts of statistics, which are beneficial to their cause, acquired from studies of trading stamps made in the United

States. For example: only 8.4% of the retail stores in the United States using stamps have been able to offset stamp costs with increased volume of sales and stamp plans instead of providing a competitive tool for the small retailer actually resulted in a decline of 1.8% in sales to them.*

They stress that the cost of trading stamps will force a rise in food prices to cover the additional cost to operation and that the economic waste inherent in trading stamps, and the profiteering of trading stamp companies are damaging to public interest.

It is their opinion that retailers should be permitted to remain free to compete for consumer business on the basis of knowledge, initiative, efficiency, service, and products and not be burdened by an expensive artificial competition.

The association in its submission to the government suggested that the following principles should govern the revision of the definition of trading stamps:

(1) trading stamp companies should be prohibited from doing indirectly what they are now prevented from doing directly,

(2) the exemptions now permitting the distribution of coupons by retailers, wholesalers, and manufacturers should be eliminated,

(3) purchase of coupons designed to overcome the prohibition against free distribution of stamps should be prohibited,

* 12, p 7,8

(4) the "place" of issue of trading stamps referred to in Section 322 (b)(ii) should be specifically confined to the street address of the retailer.*

Canadian Association of Consumers

The Canadian Association of Consumers is a non-profit organization which has as its primary objective the helping of Canadian women to buy wisely and economically. Its organization and jurisdiction extends to the Provincial Board in matters pertaining to the provinces and to the Dominion Board in matters relating to Federal jurisdiction. The association has in the past been influential in petitioning the government for certain reforms.

In a brief submitted to the Crown Attorney of Carlton County, Ontario, the following reasons for opposing trading stamp plans and requesting action against those issuing stamps were stated:

(1) trading stamps eventually would raise the price of goods sold by retailers issuing these stamps,

(2) trading stamps add no real value to the goods or services in outlets issuing stamps,

(3) where trading stamp plans become widely accepted the consumer is forced to accept and redeem the stamps offered if he wishes to receive full value for his money,

(4) consumers are misled by the "something for nothing" attraction and will tend to place more value on the premiums than on the value of the goods purchased,

* 22

(5) consumers are aiding inflation by paying out more money in higher prices for essential goods so that they may later on receive unnecessary goods in the form of premiums from their retailer,

(6) the use of trading stamp plans will lead to a lowering of ethical standards because on redemption the consumer must sign a statement that all the stamps were purchased at the same store, and the consumer can hardly be expected to keep a separate book for each store within a particular district,

(7) stamps are an unfair competitive method which forces some retailers to participate to meet the actions of competitors and the association is opposed to the distribution of durable goods through this type of plan,

(8) the use of stamps by-passes reduction in prices in favor of a plan that penalizes many consumers who would prefer lower priced merchandise to unsought premiums.*

The association's views on trading stamps was reiterated in resolution number 17 during the 11th National Annual Meeting** held in October, 1958. A number of resolutions concerning premiums were also endorsed at this meeting. These resolutions dealt with the many complaints received from housewives regarding the enclosing of premiums in cereal packages, soaps and soap powders. The association believes that these

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premiums should be discontinued and thus allow the consumer to receive full value of the desired product for her money spent.

Canadian Labour Congress

The Canadian Labour Congress is a national labour organization and it has expressed a formal opposition to the use of trading stamps in retail stores. The organization is in favor of legislation to ban trading stamps effectively.

In their official bulletin they mention that in a recent survey in the United States, it was found that food costing $11.85 in a non-stamp store cost $12.84 in a store with trading stamps. They also mention that trading stamps may have been a factor in the increase in food prices in 1956. From December, 1955 to December, 1956, the cost of living in foodstuffs rose from 112.4 to 117.5, which is an increase of 4½%. In the bulletin they state that some of this increase may have resulted from the two to three per cent cost required to finance these plans.*

In conclusion, they believe that there is nothing about trading stamps to commend them to any honest, conscientious, and impartial person. The stamp plan is merely an attempt to levy tribute on the retail trade and force retailers to pass the cost of the plan on to their customers.

Summary

The numerous associations opposing trading stamps have tried to impress upon the consumers and especially those in government positions that the essential purpose of trading stamp companies is to make huge

* 19

profits for themselves at the expense of the consumer and retailer. To accomplish their objective they have stressed the following points in their trade papers and government submissions:

(1) trading stamps increase consumer prices,

(2) trading stamps lead to careless buying and confusion of values,

(3) trading stamps are parasitic,

(4) trading stamp plans, like lotteries, are based on exploitation of the public,

(5) trading stamp plans are harmful to retailers,

(6) trading stamp plans add to the nation's welfare because of their threat to the cost of living at a time when government policy is directed at preventing inflation.

Their programme of education appears to have been successful to the extent that many associations, labour, farm organizations, as well as business and industry are opposed to trading stamps and have joined in urging the government to action.

As to the attempt to have Parliament amend the present law to make it enforceable in all provinces, they have been less successful. At this date no amendment has been introduced to eliminate these weaknesses of the present bill nor is any contemplated in the immediate future. They feel confident, however, that if and when any action is taken that the Government and Parliament will amend Section 322 (b) to outlaw stamps effectively.

Chapter 4

Trading Stamp Plans

Trading Stamp Companies

The main type of stamp company operating in Canada is the independent company. This type of organization is advantageous to the small independent retailer for the latter usually lacks the funds, the managerial skill, and the time required to develop a stamp company.

The independent firm also provides the retailer in advance with the cost of the stamp plan. The premiums, the cost of supplies, and the promotion provided is included in the price of the stamps.

Normally the program of the independent stamp company has wider consumer appeal and the assistance offered by their salesmen enables the retailer to utilize the experience, ideas, and techniques used successfully by the other stores.

The disadvantage of using an independent stamp company may be summarized as follows: (1) the inability of the retailer to control special promotions, double stamp days, and the use of the stamp on credit sales, (2) at times the exclusiveness the retailer had expected is not always maintained by the stamp company - in Canada the contract between both parties is signed for a 12 month period and the franchise for a particular marketing area is only written into the contract upon the insistence of the retailer, (3) the inability of the retailer to bring into the stamp group other non-competing stores in his market area.

In providing the necessary services to the retailer it serves, the stamp company must employ experts in the fields of sales, promotion, advertising, purchasing, warehousing, and statistical methods. Thus, the assistance provided by the stamp company salesmen is invaluable to retailers.

The supplies needed to operate a stamp plan are issued by the stamp company. These supplies include the stamp books, the merchandise redemption catalogues, advertising signs in sufficient quantity for use inside and outside the store, so as to make known to the public that the retailer has adopted a stamp plan, and the goods and wares necessary for redemption purposes.

In launching a stamp plan in a new marketing area, the stamp firm sends its own personnel into the new stamp area so as to create a conviction and an enthusiasm for the stamp plan and to train employees in the tried and proven methods for handling stamps with purchases. They also aid the retailer in introducing the plan by assisting in newspaper, radio, and television advertising. This is all very important as a stamp plan can only succeed by getting the stamps into the hands of the consumer. Confidence on the part of the merchant and his sales help, that the stamps are going to win new customers and cement the relationship already enjoyed with his present customers, is a must.

The stamp company earns revenue in the following way. Like the retailer's gross profit, there is a markup on sales. The stamp company sells a pad of stamps for $15.00, with a redemption ratio of $12.50 to $15.00, in a few cases, if every stamp were redeemed. This dollar difference is gross profit. The stamp firm makes a profit on the premiums which are bought from wholesalers and suppliers at minimum factory prices and redeemed on the basis of their "suggested" retail price. As redemption of stamps is less than 100 per cent, all stamps unredeemed, yet paid for by the retailer, represent a gross profit for the stamp company. As the stamps are sold to the retailer well in advance of the time merchandise is required for redemption, this leaves a large fund to be set aside for unredeemed premium reserves. These reserves may be invested to earn interest for the stamp company in the interim.

The operating costs of a stamp company are minimized, for it limits premiums to merchandise which requires little or no selling effort, it offers few services such as delivery and credit sales, and it is normally located in a low rental area. The larger stamp firm may enjoy the economies of integration.

Finally, profits can depend on the competition which exists in the stamp business. Severe competition may result in stamp companies lowering the price of stamps to the retailer or raising the retail value of the premiums received by the consumers.

From the data available there appears to be little if any difference in cost between the various stamp plans offered to the retailer. The widely known plans cost the merchant no more than the lesser known plans. The better stamp plans have the greater advantage in that they use continuous local promotion on which each retailer in the community can capitalize. As consumer acceptance of a particular plan depends on exposure to the stamp and promotion, the latter becomes very important when selecting the stamp to be used by the retail store.

If a particular stamp plan has already been accepted in a given market area, it should be given favorable consideration over a plan which is new to a community. This is especially true if the merchants already using the stamp plan are aggressive, well established, and operate stores other than the kind operated by the prospective retailer.

The retailer contemplating adopting a stamp plan should investigate the financial soundness of the stamp company offering the plan and be sure that it has a reputation for fair, ethical practices. The stamp company should also provide for premiums a wide selection of excellent quality, nationally advertised merchandise with the relationship between the value of the goods in dollars and the number of stamps required to obtain the given premium, fair and competitive with other plans.

In selecting a stamp plan the retailer should seek an exclusive franchise on a continuing basis for his type of store in that trading area and the contract with the stamp company should be flexible. The retailer should also see to it that the stamp firm is willing to assist him in merchandising and starting the stamp plan through the use of radio, television, newspapers, point-of-sale banners, handbills, window cards, and occasionally some outside signs.

Lastly, before reaching a final decision the retailer should seek the advice of retailers now using the company's stamp plan and if possible the advice of a premium consultant. The latter is often well versed in tailoring premium plans to the needs of individual stores and given the necessary facts, he will recommend a sound plan.

Basic Features of a Stamp Plan

A stamp plan is operated on a very simple basis. Although the stamps are valued at one to two mills of a cent each, their value builds up as they are collected and posted to the blank pages of the stamp book. This accumulation of stamps by the consumer is the fundamental requirement of stamp plans. In marketing terminology this is referred to as a continuity feature.

All stamp plans offer a premium to the stamp holder on the completion of certain requirements. Normally one stamp book must be filled before it can be exchanged for a premium. However, the stamps can be redeemed at any time for monetary value as indicated on their face. Some consumers have the patience to save many books but to encourage all to save stamps, one should be able to obtain premiums frequently. Being able to obtain premiums often induces continued patronage, higher unit purchases, and it encourages new customers to join in the saving of stamps.

All stamp plans have a ratio of stamps to sales which permits the giving of a stamp to small purchases. One of the larger stamp companies offers one stamp for each 25 cents of merchandise purchased while other firms give stamps for every purchase of 10 cents. Such a feature is considered necessary in order to encourage repeat sales.

Another feature of stamp plans is the exclusive franchise for each kind of retailer in a given market area. In Canada, the franchise feature is written into the contract between the stamp company and the retailer only when it is requested. It generally means that the particular stamp will not be issued to the retailer's nearest three or four competitors. This feature is of importance because the purpose of using stamps is to direct consumer demand to a particular store. Figure II is the agreement used by Gold Star Trading Company Ltd.

To make a stamp plan more acceptable, the joining of as many different kinds of retailers in each market area to the same stamp plan enhances its success of acceptance by the consumer. The housewife is then able to obtain premiums faster by patronizing all participating retailers. In the United States, the joining together of non-competing retailers is a basic feature of most plans. In Canada, this method of accumulating stamps is not allowed, for the law states that the consumer can only purchase and redeem his stamps at the same establishment. However, it is very unlikely that this regulation is adhered to by all stamp savers where similar stamps may be amassed.

Redemption

When the consumer receives stamps in return for cash purchases, they are then placed in the stamp book until the latter is filled. As this is being accomplished, the consumer is often contemplating what premium he will desire. To assist the stamp saver in selecting the premium wanted, stamp firms issue premium catalogues and open in various localities what is referred to as "sample stores."

The sample store was originally established to aid the stamp company in interesting a prospective retailer in adopting a stamp plan. Now one of its principal functions is to allow stamp savers to actually see all the many items offered as premiums. The actual seeing of the

Figure II

The Contract Used by Gold Star Trading Co. Ltd.

Gold Star Trading Co. Ltd.

1801 rue Délorimier, Montréal
Tél. LA. 6-2865

.L — ABITIBI — TROIS-RIVIERES — SHERBROOKE — QUEBEC — ST-JOHN, N.B. — ST. JOHN'S, NFLD.

AGREEMENT

THIS AGREEMENT MADE this..........day of..........195..........

rWEEN:

GOLD STAR TRADING CO. LTD., a body corporate and politic, having its head office in the City of Montreal, Hereinafter ed the LICENSOR,

PARTY OF THE FIRST PART;

D..........Address..........Tel. ....

carrying on business in the City of..........Hereinafter called the LICENSEE,

OF THE SECOND PART.

AND WHEREAS the Licensee, being an operator of a.........., desires to avail himself of the use of the ensor's Premium Plan

NOW THIS INDENTURE WITNESSETH that the Licensor agrees as follows:

1. To furnish to the Licensee advertising signs in quantity sufficient for use inside and outside his store and permit him to

ce known to the public that he has adopted its aforesaid plan.

2. To furnish to the Licensee stamps or tokens in the form prescribed by the Licensor to be issued to his customers as herein- r provided.

3. To furnish for distribution merchandise redemption catalogues prepared by the Licensor and its stamp books in which :omers shall paste and accumulate said stamps in accordance with the regulations and instructions contained in the said stamp ks and to redeem the said stamps when collected in the manner therein prescribed when same are presented at your place of iness where the merchandise is purchased by giving to the customers in exchange therefor goods, wares or merchandise of their ı selection as described in the said catalogues then current, and subject at all times to the conditions printed in the said catalogues, er books or other conditions as may from time to time be imposed by the Licensor.

4. The Licensee agrees:

(a) To adopt and use the Licensors aforesaid Gold Star Premium Plan including its cash discounts symbols or stamps designated Gold Star Stamps furnished for use in connection therewith during the term of this Agreement.

(b) To take part in no other plan similar to the plan of the Licensor.

(c) To advertise the adoption and use of the Licensor's Plan in connection therewith by displaying in the windows or other ninent places in and about the store such advertising signs as shall be furnished by the Licensor from time to time.

(d) To order and receive from the Licensor its said cash discount stamps designated as Gold Star Stamps in amounts of not less ı one pad and to insure that said stamps are delivered to the purchasers with each purchase of merchandise in accordance with conditions set forth from time to time by the Licensor.

goods is more helpful to the consumer than trying to select a premium from a poorly illustrated catalogue.

These sample stores resemble the redemption stores operated by the stamp companies in the United States. However, in Canada the stamp saver cannot pick up his premium at the sample store.

After collecting the required number of stamp books for the premium desired, the customer then notifies his retailer of his choice of premium. The retailer makes sure that the customer signs the form provided in the back of each book before accepting the stamp book. Figure III is an example of the latter. If the premium wanted is already in the store then the transaction is completed immediately. If the item is not in the store or the customer does not wish to take the one on display, then the premium must be ordered. When this occurs the customer's stamp books, to the value of the item or items required, are accepted and the customer is given a receipt for his books.

The retailer then orders the premium from the stamp company. The customer must usually wait one week for his premium from the day his stamp books are accepted by the retailer.

The consumer on redemption of the stamp book receives no prizes, no surprises, no uncertainties, and no gifts. The merchandise given as premiums is priced in terms of books of stamps. The transaction is similar to any other retail transaction except that the housewife uses books of stamps instead of dollar bills.

Redemption may also take the form of a cash payment. The value of each stamp is shown on its face. To some stamp savers this represents a savings program.

Figure III

The Statement, to be Signed by the Consumer, on the Back Cover of a Trading Stamp Book

RETAILER'S NAME ◆ ◆ NOM DU MARCHAND

I hereby certify that all the stamps affixed to the within book were obtained from the store whose name appears on this booklet.

Signed...

Je certifie que tous les timbres collés dans ce livret ont été obtenus du marchand dont le nom apparaît sur ce livret.

Signé...

Cash Register Tape Plan

In Eastern Canada many retailers have or are using cash register tape plans as a sales promotional device.

This particular type of plan employs a colored tape on regular cash registers. The consumer saves these tapes until total purchases correspond to the amount required for the premium desired. Except for the Sav-A-Tape plan used by Dominion Stores Ltd., the choice of premiums offered at any one time is usually limited to a few items.

Dominion Stores Ltd. in adopting the Sav-A-Tape plan on the discontinuance of the Blue Chip Stamp Plan retained all the operational methods of the latter except the printing of stamps, books, etc. It eliminated the double stamp days of Monday, Tuesday, and Wednesday in effect during the use of the stamp plan. To compensate the customers, a tape value of $112.00 was now equal to one full stamp book. The latter when in use required 1,500 stamps worth $150.00 of purchases.

During the change-over period stamp books were accepted for redemption in combination with the tape plan. For example, if a customer had 1,200 stamps in a book she would have 4/5 of a book and to complete the book she would require 1/5 of $112.00 or $22.50 worth of cash register receipts. In the event of odd quantities of stamps a 10 cent credit for every stamp was issued.

The promoters of the limited premium plan believed that at the start of this type of plan only one item should be offered, with a gradual build-up over a few months to four items with a maximum at all times of not more than five items. Sales records are kept of the various items being offered and the weakest one is always replaced at regular intervals.

To receive the type of premium offered, an accumulation of \$29.00 up to \$200.00 worth of cash register slips has been required. The premiums offered will determine the dollar amount of slips required. The articles used as premiums include stockings, pillow slips, men's socks, towels, sheets, pots and pans, and chinaware.

The cost as a percentage of sales for this type of plan falls between one and one-and-a-half per cent. One progressive food chain organization quoted a figure of one-half-of-one per cent.*

The method and regulations for the redemption of cash register tapes is similar to that used by retailers operating a stamp plan, for example, the customer in most cases still signs his name and address. Dominion Stores Ltd. provides each customer with a cash register tape envelope. This envelope has a space for the customer to list the individual tapes and total. Most stores operating this type of plan has a clerk add the tapes for the customer in the store.

The type of plan used by Dominion Stores Ltd. is very similar to that used by retailers in the United States. Dominion Stores Ltd., in adopting their Sav-A-Tape plan, effected a savings of approximately one-quarter-of-one per cent over their cost in using their Blue Chip Trading Stamp.**

One food chain introduced the tape plan in a depressed area to meet competition offered by another food chain. As a result sales improved

* 108
** 83

and it is now being considered for use in other districts. During the first three months of operation approximately 5,000 pairs of nylons were given away.*

The reasons for adopting a cash register tape plan, besides keeping away from the present controversy over stamp plans, are the desire to control the plan, to save on cost, and to secure flexibility and exclusiveness.

When the major retail food chains withdrew their trading stamp plans from the Ottawa area, the president of Steinberg's Ltd., Mr. Sam Steinberg, made this statement:

> "Our firm has no use for stamps. It prefers cash register slips as an easier way of giving premiums to customers. We went into trading stamps to compare them with our cash register plan in Montreal.
> We found their was no comparison. Stamps didn't do the customers or us any good." **

For the independent retailer the cash register tape plan may at first suggest a savings in cost but it also brings with it managerial problems. Management, in addition to their normal functions, would have to spend part of their time and effort stocking premiums, buying supplies, and preparing promotional ideas to keep the plan popular. A cash register tape plan would also lack the promotion of other merchants to help popularize the scheme as is common to stamp plans. The expense of advertising would have to be borne by the one store and unless new advertising techniques were employed the bringing of new customers into the store becomes doubtful. These managerial functions and the promotion of the

* 97
** 38, p 3

stamp plan are performed by the independent stamp firm when a retailer contracts for a stamp service.

In the larger retail food chains, the necessary funds and competent personnel to devote their time to the enthusiastic promotion of the tape plan are available. If, however, there is no executive with sole responsibility the tape plan may lack aggressive promotion and at times there may develop a lack of planning and central co-ordination between stores.

<u>Summary</u>

The trading stamp plans used by the independent retail stores are based on a few basic concepts. These are: (1) the accumulation of stamps by the consumer, (2) a reward for patronage, either monetary or merchandise, (3) an exclusiveness, if requested, for each type of retailer in a marketing area, (4) a stamp of low unit value, (5) a known cost related to sales, and (6) prompt redemption.

Redemption plans are similar as the law states that redemption can be either in cash or merchandise and must take place at the premise of the retailer from whom the stamps were received. To aid in the selecting of merchandise, premium catalogues are issued and "sample" stores are set up at various centers.

The basic plan, the kind and number of retailers using the stamp in the area, and the promotional effort are the important factors which establish the acceptance of a stamp. The popularity of a stamp plan seems to vary directly with the speed with which consumers acquire enough credits for premiums.

Chapter 5

Operating Procedures and Techniques

Most of the premium promotional activity is relatively new. During the past 10 years premium merchandising has developed and increased among the corporate chains, the voluntary chains, and the independent store operators. This phenomenal growth in the use of premiums by food retailers has been a boon to trading stamp firms.

When to Adopt a Stamp Plan

Many retailers have already adopted a trading stamp plan for one or more of the following reasons (1) first and foremost is the desire to increase sales volume, (2) improve gross margin percentage, reduce operating expense ratio, and provide a higher rate of turnover, (3) the competition of the high-volume low markup retailers, the expansion of shopping centers, and the movement to suburban areas, and (4) new competition was entering the area and the retailer hoped to maintain his present position. Many of the small independent retailers feel that trading stamps are a means by which they can overcome the advertising promotions of the larger competitors or that trading stamps can be used to compensate for their inability to match the basic merchandising attractions of these same competitors.

Although the desire to increase sales volume is the most influential reason for adopting a stamp plan, this is not always so for at times the plan will be taken on even when it is known that the increase, expected in sales, will not offset the cost of the stamp plan. To overcome a paticular problem, a retailer may be fully justified in adopting stamps under adverse conditions, but it cannot be emphasized too strongly that a stamp plan is not a panacea for all the ills of the retail trade.

To employ successfully a stamp plan, the retailer must be generally located in a major street shopping development or in an expanding suburban area, have a modern store, a wide assortment of merchandise, ample parking area, adequate customer services, and competitive prices. That is, he is already in a strong competitive position prior to the adoption of stamps.

The chances of the stamp plan being a success are very slim when the retailer is in a weak competitive position. A poor competitive position arises when the store is located in an area where population and income have fallen or remained static during the past years, the variety of merchandise carried is limited, prices are comparatively high, there is limited customer services, and there is little advertising. A retailer finding himself in such circumstances would be much better off if he concentrated on improving his basic merchandising principles rather than take on a stamp plan. The latter will never produce the desired results for this type of store.

If the retailer belongs in the former category, he should then seek answers to the following questions: (1) is the store able to handle an increase in sales volume without a corresponding increase in overhead, for an increase in sales without an increase in store personnel, costs of store rent, or operations would mean a gain in dollar margin and if the increase in sales were sufficient an increase in net profit would result, (2) will enthusiastic support be given to the stamp plan, for if the retailer enters into a premium promotion plan without this essential feature or if he objects to the principle of premiums, then it would be far better for him not to use trading stamps as a promotional device, (3) has the store a low average per customer purchase, for increasing average purchase results in the customer shopping the store more completely, and (4) the shoppers in that market are they frugal and premium conscious.

The sales volume of a given market, that a store now enjoys, must also be taken into consideration. In this respect the benefits available in adopting a stamp plan seem to favor the smaller retailer. For example: a store now possessing 2% of an available market of $100,000 can by drawing just 0.5% of business from its competitors increase its sales by 24.5%. A retail store having 60% of the trade in that same market would need to capture 15% of the remaining market in order to increase sales 10%. Therefore, it becomes very obvious that the larger the share of the market already held the more difficult it becomes to offset the costs of stamps by increasing sales volume. Where a store already has the bulk of the food trade, for example, in a small community, the taking on of a stamp plan is not advocated. This is so because of the fixed cost feature of trading stamps. The present volume of sales will require stamp expense as well as any increased sales.

Another important issue to consider is the break-even point. The factors used in computing this amount will vary in each individual case but for purposes of illustration the following conditions will be assumed. The present sales volume is $100,000, overhead is 12%, direct costs on the present volume is 10%, and a profit margin of 3% is realized. Sales can be increased 50% with no increase in overhead and only a 5% increase in direct cost on the additional business. The cost of the stamps to the retailer is .015 cents per dollar of sales.

Upon the adoption of the plan, an immediate additional cost of $1,500 is incurred by the retailer on his present sales. Therefore, if the retailer's sales remain the same, his profit is reduced.

Assuming the above conditions, the retailer in order to earn a $3,000 profit, as he did before using stamps, would have to increase sales by 8.108% (see Table I). An increase in sales of this magnitude would enable the retailer to offset the cost of the stamps without increasing food prices.

An increase in sales of 50% would result in a $10,750 profit to the retailer. This means an increase in profits of $7,750 which is 15.5% of the increase in sales. The retailer now enjoys a profit ratio of 7.5% of sales instead of 3% of sales. Under these conditions and assumptions trading stamps would be well worth the effort. At this point the store and the store personnel are used to capacity.

These assumptions fail to take into consideration any possible reductions in the cost of sales due to better purchasing, less spoilage on perishables, or increases in gross margin arising from the possible fewer markdowns on slower moving items.

Finally, the promotional appeal of stamps may disappear by the

Table I

Effect of Increased Sales on Operating Profit*

Sales	Per Cent of Sales Increase	Cost of Goods Sold	Overhead	Direct Costs	Stamp Cost	Operating Profit	Loss or Gain on Stamps
$100,000	Before	$75,000	$12,000	$10,000	- -	$3,000	-
100,000	After	75,000	12,000	10,000	$1,500	1,500	- $1,500
105,000	5	78,750	12,000	10,250	1,575	2,325	- 675
108,108	8.108	81,081	12,000	10,450	1,622	3,000	Break-even pt.
125,000	25	93,750	12,000	11,250	1,875	6,125	3,125
150,000	50	112,500	12,000	12,500	2,250	10,750	7,750

* Calculated using 75 per cent gross margin,keeping overhead constant, and direct costs $10,000 plus 5 per cent on sales over $100,000.

Source: author's calculations.

retailer's becoming involved in legal battles, community feuds, or adverse public opinion campaigns.

Store Policies

It is imperative that with the start of a stamp plan, store policies pertaining to the introductory promotion of stamps and the procedures for handling, controlling, and dispensing stamps in the store should be adopted. The retailer should periodically review his stamp policies so as to insure a continued enthusiasm which is vital to the success of the plan.

In the retail food store, trading stamps should be given to every customer with every purchase at the regular retail price. Store policy must state whether stamps will be dispensed to those who purchase on credit, demand free delivery, or buy in discount quantities. It should also state what procedure should be followed with returned merchandise. These particular points should not only be well planned but also well publicized.

In order not to incite consumer wrath, breakage policy must be clearly defined. One store using the basic plan of one stamp with each 10 cent purchase gives stamps only in even multiples of 10 cent purchases, that is, with a purchase of $4.50 or even a purchase of $4.59 only 45 stamps are given to the customer.

The most common method of dispensing stamps in a retail store is to let the cashier give the stamps out at the checkout counter. In some outlets issuing stamps, a central booth is sometimes set up where customers can receive stamps in exchange for regular cash register slips. The system used should never discourage the customer from receiving the stamps. This is very important, for the success of the plan depends primarily on the attraction of new customers to the store and retaining them.

Stamps should be given directly to the customer and to all customers entitled to them. It should not be the store's policy to give stamps only to the customer who asks for them. Such a practice often results in the store's receiving a poor name.

There must also be very tight control over the stamp inventory. Employees must be impressed with the importance of the care that must be given to stamps at all times. In fact, they should handle stamps as they are taught to handle money. Stamp books should not be left lying around, or torn apart indiscriminately, nor should they be given to employees without record.

The accounting procedure should provide a perpetual inventory of stamps. The form used must record the daily distribution of stamps to each register, the movement of stamps, and show the stamps on hand at the close of each day's business. At the end of each day the store should know the number of stamps that should be on hand. Weekly, or sooner, if necessary, the number which should be on hand can be compared with the actual count on hand.

Where the cash register tape envelope is used, the premium is issued to the customer without checking each individual cash register slip. In such cases, it is necessary for an employee or the store manager to make a spot check from time to time when the customer hands in his envelope, to be certain that the store is getting full value of tapes in the envelope. To insure the carrying out of the latter policy, a further check should be made at the head office.

<u>Introduction of Plan to Employees and Customers</u>

As the sales employees are the ones who are in continual contact with the customers, it is important that they understand all aspects of the plan. The best method of introducing the stamp plan to the employees is to call a special meeting dealing only with trading stamps. Proper employee instruction is probably best accomplished by having a representative from the stamp company present at the meeting. The employees must be instilled with an enthusiasm for the plan comparable to that of management. To make the plan successful, the employees' fullest cooperation is needed.

Printed instructions should also be provided to the employees, to which they can refer when doubts arise about any part of the program. Of course a copy should always be found at the cashier's booth.

It is very common at first to receive complete enthusiasm for the plan from the employees, but often after a period of time has elapsed stamps are taken for granted. Therefore, constant effort is needed on the part of management to revive the employees interest to insure the continued success of the stamp plan.

In introducing the plan to customers, most trading stamp firms provide ample help in preparing the initial program. In order to succeed, new customers must be attracted into the store. This usually means new methods of advertising must be employed by the retailer. The start of the plan must be publicized over the maximum potential market area.

One of the most common methods used to attract new customers is direct mail advertisement. In the brochure received by the housewife is the offer of receiving free stamps. The latter is available at the stamp store upon the presentation of some form of identification. Another method of attracting customers is to offer, for example, 25 free stamps to each child accompanied by his parent. This type of offer usually expires within a short period of time.

Increased advertising in the form of television, radio, circulars, direct mail pieces, and advertisements in all the local papers are employed during the first weeks the plan is in operation. Follow-up ads should be continually used to keep the plan before the public.

The store and store front should be well decorated with colorful banners, pennants, displays, etc. to attract the attention of foot and vehicular traffic.

If maximum results are to be achieved on a continuing basis, the stamp program should become the central element of the promotional program. The success of the plan depends on the getting of the stamps and the stamp books into the maximum number of homes.

Competitive Tactics of Non-Stamp Stores

The re-use of trading stamps by food stores has brought with it much opposition. This opposition has come from retailers who have already lost business to retailers using stamps and from those who want to prevent the possible future loss of business to such schemes.

The arguments used by those opposed to trading stamps have centered mainly around the point that they are operating in Canada illegally, that is, Section 322 (b) of the Criminal Code bans their use. Also in the literature released can be found the same type of arguments used to combat the larger chain stores when they were first introduced. Probably much of this feeling, expressed by retailers opposed to trading stamps, can be summed up in a few lines from a talk given by Dr. Charles F. Phillips:

> "We all like competition since we know it is essential for our type of economy and we like the freedom which our economy gives to us...
> But all too often when a competitor really acts like a competitor and does something which hurts us, sells harder, improves quality - it becomes unfair competition and we run to our trade associations, our resources, or to the government.
> We all like competition, but..."*

To counteract the competition and adoption of stamp plans, retail organizations opposed to stamps have increased their use of premiums, promotional activity, price competition, and other premium plans.

The price issue is probably the most common competitive activity and this is accomplished by suggesting price comparisons. At times the non-stamp store publishes detail price lists in newspapers comparing their prices with competitor A, B, and C.

A major supermarket chain not dealing in stamps is A & P Ltd., whose promotional theme continues to be: "Cash is Still the Best Thing to Save." The action taken by this food chain is, "to enlarge our

* 13, pp 32-37

advertising and hammer away at a low price structure."* In areas where competition has been keen, the consumer has benefited, for stamp competitors have kept their prices at a minimum low.

It is doubtful if all retailers opposed to stamps should use price reduction as an alternative to stamps. Unless a retailer gains a differential advantage through price or wipes out the advantage of a competitor, it should not be used. Further, in order to maintain his previous profit margin the retailer must sell more goods at a lower price in order to make up in volume of sales what is lost on a unit basis. Again, price reduction, unlike stamps in some situations, may not effectively differentiate a retailer's store so as to enable him to gain enough sales to offset this price concession. Lastly, price reduction may be ineffective as the retailer's major competitors will match his price reductions immediately on the staple items common to all stores.

When the three major food chains in the Ottawa area dropped stamps, President T. G. McCormack of Dominion Stores Ltd. said:

> "Once again, when all the flush of faddism has settled down, the customer is back where she can get the best and the most for her family food dollar."**

Another method used by retailers in combatting stamps is the giving away of free merchandise for short periods of time. The gift is usually received upon the purchase of a small order. Examples are: the giving away of items such as kitchen scrapers, paring knives, pot scrapers, etc. on all orders over $10.00, free nylons with $25.00 in

* 85
** 38, p 3

in cash register receipts, and free dinnerware with $10.00 in cash register receipts.

Many stores have increased their promotional activity by means of contests of numerous types, the use of self-liquidating plans, and new premium schemes. The most important of the latter will be discussed in a later chapter.

To my knowledge, no independent merchant has copied the plan advertised by a retailer in the United States:

> "You can save with our cash dividend plan. Select the premiums you want from the stamp catalogue and start saving our cash register receipts. When you have saved enough tapes to equal the amount of stamps you would need to pay for the premium bring the tapes to us and we will give you the retail value of the premium in Cash or the premium itself. This costs us and you much less than any stamp plan."*

<u>Summary</u>

One of the results of premium competition in retail food stores has been the resharpening of competitive tools, starting with merchandising and continuing through store layout, pricing policies, advertising, and services offered.

Trading stamps are most useful under the following conditions:

(1) when the increased volume needed to operate the plan successfully is available in the present location with no material increase in overhead,

(2) the present percentage of the market available is not great,

* 52, p 9

(3) the retailer already is in a strong competitive position, that is, prices, services and facilities, and brands are equal to similar competitors,

(4) the increased volume required to break even is reasonable,

(5) the retailer must be able to meet the competitive tactics of other retailers,

(6) the goods should be of small unit value and purchased often and have a stable demand.

Each retailer must analyze his own particular operations with great care before deciding whether or not trading stamps should be adopted.

Of the many tactics used by competitors to combat trading stamps, the most prominent is that of price comparison. Other tactics include premiums, give-aways, self-liquidators, contests, increased advertising, and other premium plans.

Since trading stamps are a sales promotional device, they must be continually promoted and customers must be encouraged to take stamps, save them, and redeem them.

Chapter 6

Who Pays For the Cost of the Stamps ?

The benefits which a stamp plan provides depend on the factors and conditions confronting a specific store. The advantages a retailer may receive from the use of trading stamps may include one or more of the following: increased sales volume, improved margins and expense ratios, reduced credit sales, a more even distribution of volume throughout the week, and fewer markdowns. Of these benefits, the increase in sales volume is the most important to the retailer.

Effect of Stamps on Sales Volume

The increase in volume of sales attributed to the use of trading stamps range from little or none to as much as 100 per cent or more in some stores. The degree of increase varies with the kind of store, merchandise methods and practices used, other promotional devices associated with the use of trading stamps, and the competition provided by nearby stores.

Because of limitations in information secured in the surveys discussed below, nothing more than a general indication of a change in sales volume can be noted.

A survey was made of Supreme Markets, an independent chain organization located in the Province of Quebec. Prior to the using of stamps, the average weekly sales for the 37 stores was $5,385. After taking on stamps the average weekly sales increased to $7,264.

Therefore, an increase of $1,879 in dollar sales volume or a 34.9% increase in average weekly sales has been reported.*

In a 13 week test in 95 Ottawa food stores by a Minneapolis stamp firm, an increase in sales volume of 68% was reported. After one year of operating the stamp plan, the increase in sales volume was still maintained by these retailers. The increase in sales by the stores using stamps varied from 20% and upwards.**

In order to offset the competitor's advantage of preceeding them with stamps in the Ottawa area, Dominion Stores Ltd. declared Monday, Tuesday, and Wednesday to be bonus days. On these days the customers received two stamps for each 10 cent purchase instead of one. Although no sales figures are available for publication, it has been stated that the effect of this promotional device on sales was an immediate improvement and it almost nullified the initial advantage enjoyed by the competitor. The company has maintained this recovery in sales even though the original stamp plan has been replaced by a cash register tape plan. ***

Other food retailers who prefer to remain anonymous indicated that the present breakdown of sales figures did not allow them to state accurately the effect on sales volume arising from the use of stamps or cash register tapes. The reason given was the use of other types of promotions running at the same time. The latter, thus, made it difficult to place the responsibility for any sales increase on any one promotion.

* 104
** 82
*** 83

A few years ago Steinberg's Ltd. discontinued the use of premiums and a decrease in sales was noted. This discontinuance of premiums took place during the month of February, the month which records the lowest sales in the year. After a careful analysis of the facts the company announced, "we cannot say conclusively whether this decrease was due to the lack of premiums or simply due to the seasonal factor."*

In the United States many surveys have been made to measure the effect of stamps on sales volume and many pages could be filled showing what has happened to sales in various stores and chains that have taken on stamps. From the surveys available, I have selected a few examples which should provide a general picture of this situation.

The Progressive Grocer in 1956 made a survey of independent retailers using stamps. The latter reported sales gains averaging 21% for supermarkets and 18% for superettes. The supermarket sale increases ranged as high as 75%, the superettes as high as 60%.

In the same survey the effect of stamps on profits was also sought. The results indicated were:**

	Supermarkets	Superettes
Higher profits	48%	22%
Lower profits	34	57
No change	18	21

In a survey, conducted by Super Market Merchandising, of 19 food stores which had adopted stamps the following was noted: 5.3%

* 108
** 55, p 50

increased sales 80 to 100%; 10.5% increased sales 60 to 79%; 0% increased sales 40 to 59%; 31.6% increased sales 20 to 39%; 31.6% increased sales 1 to 19%; 10.5% had no increase in sales; and 10.5% gave no answer.*

A Super Market Merchandising survey on the effects of stamps on profits produced the following:**

Higher profit	47%
Lower profit	29
No effects	12
No answer or undecided	12

In an earlier survey made by Progressive Grocer, it was found that the small neighborhood stores adding stamps had little or no sales stimulus.***

The United States Department of Agriculture, in its third major report on trading stamps, stated that food chains adding stamps increased their volume of sales by 34% from 1953-54 to 1956-57. Between these dates, volume of sales in food chains not adding stamps increased only 15%.

This report further stated that the profits of the five stamp-using chains declined after the starting of the stamp plan. In the year prior to the using of stamps, the average profits for these food chains were 1.34% of total sales. After adopting stamps, the average profits declined to 1.30% of total sales. During this same period, profits in the non-stamp food chains rose from their average of 0.92% of total sales to 1.17% of total sales.****

On the other hand, after taking into consideration the average

* 57, p 37
** 58, pp 106-107
*** 51, p 15
**** 76, pp 25-29

sales' increases reported, it is found that the average dollar increase in profit for the stamp-users amounted to 37.7% while that of the non-stamp users was 55.1%.

From the many surveys conducted, the results seem to indicate that many retailers have found stamps to be all that was anticipated and more. Therefore, the adoption of stamps as a promotional device was justifiable. Others discovered that their hopes were misplaced, that their competitive positions could not be improved by the adding of a promotional device to their already unsound merchandising methods. Again, this emphasizes the importance of a thorough analysis of all pertinent factors when the adoption of a stamp plan is being considered.

Effect of Stamps on Prices

What each retailer does about his prices is generally regarded under the Canadian system as his own business. This applies as well to his merchandise selection, quality levels, and customer services and conveniences. The success of his particular venture depends to a large extent upon the number of customers who are satisfied with the tangible and intangible values offered.

One of the most frequent charges made against the economic use of stamps as a sales promotional device is expressed in the very simple statement that the customer pays for the stamps. The truism that the customer pays all costs of doing business applies not only to stamp costs but to almost every cost incurred by the retailer in the operation of his establishment. To these costs is added a reasonable profit, if the firm is successful.

Another comment often made is that when a retailer adds stamps, he must raise his prices by at least enough to cover the cost of the stamp plan. This statement infringes upon the principle that, in the absence of price control legislation, the retailer's pricing policy is his own business. Although this statement may sound logical to the consumer, it can be refuted through the economics of overhead costs. When this is accomplished prices need not be increased.

Still another method of attacking stamps is stating that the cost of a food order purchased in a store issuing stamps is higher than that of a similar order purchased in a non-stamp store. Even during World War II, when price control was in effect, price uniformity between retailers was not regarded as realistic.

Many of the charges made against stamp costs in Canada are undocumented because no comprehensive and objective study of their effect on food prices has been made. In order to be in any way significant or meaningful, any conclusions about price must be based upon wide examinations conducted over an extended period of time.

No studies have been made by the Dominion Bureau of Statistics on the effect of trading stamps on costs of goods. The only inference that can be made must be based upon the fact that food prices in cities in which trading stamps were being used did not change any more than food prices in other cities where they were not found. No special study was made by the Dominion Bureau of Statistics to prove this point.*

Mr. Bertram Loeb of Gold Bond Stamp Co. stated in a reply to

* 81

the Retail Merchants' Association's statement that trading stamps add to the cost of goods:

> "Accurate records and Dominion Bureau of Statistic figures indicate that no single price was raised as a result of stamps. The costs of stamps was covered by the increase in business, the more rapid turnover of inventory, and by the elimination of other costly promotional devices." *

A study of present day food store operating practices will indicate the relative impossibility of testing accurately the difference between food prices at a store giving stamps and at one which does not. Differences exist in quality of vegetables, meats, and canned goods from one store to another; prices in private brands cannot be compared with national brands; specials are in effect for greater or lesser periods; and prices on from 2,000 to 5,000 different items change from day to day.

In the United States a study of the effect of trading stamps on food prices in Indianapolis was made by Professors Haring and Yoder of Indiana University, School of Business.**

The first part of their study considered the prices asked by stamp and non-stamp food stores in Indianapolis. The food items used in this study were the same as those employed by the United States Bureau of Labor Statistics in compiling the food section of its consumer price index. Of the 28 stores polled, nine gave trading stamps while 19 did not. Actual prices were obtained December 4,1956, a Tuesday, and December 7,1956, a Friday. In order to take into account both regular prices and week-end specials, the authors averaged prices for these two days, giving Friday prices double weight.

* 62, pp 22-24
** 2, pp 227-249

The results of the first part of the test gives no evidence of higher prices in stamp stores. In fact, if it suggests anything at all, it is just the reverse of this assumption.

The writers arranged these 28 stores in order from the store having the lowest average prices to the one charging the highest average prices. It was noted that seven of the nine stamp stores fell in the lowest priced half of the stores, with only two of the stamp stores falling in the group of 14 stores having the highest prices.

The second part of the study considered the impact of trading stamps on retail prices. As basic data for this approach, the writers used reports of retail food prices as collected monthly by the United States Bureau of Labor Statistics for 20 cities. The 20 cities were then divided into two groups. The first group consisted of 15 cities in which trading stamps were extensively used and in the second group of five cities, stamps were unimportant. Then the average monthly trends were compared for these two groups for the January, 1950 - December, 1956 period. It was during the latter years that stamps were invading the food field.

The results obtained showed that the average food price index for these two groups stood in exactly the same relationship in December, 1956 as it did in January, 1950. The authors were thus justified in stating "the information cited has not supported the hypothesis that stamps bring about an upward movement of food price indexes in communities where stamps are used extensively."*

* 2, p 238

In August, 1957, Dr. Joseph D. O'Brien, Associate Professor of Marketing at Boston College, published a study of food prices in Boston's leading food chains. The study found that for a market basket of 90 nationally advertised branded products priced at approximately $31.00, the housewife could purchase this basket of items at the two major non-stamp food chains for less money than at the two major stamp chains. However, it was found that the differences in totals were small, never exceeding 17 cents. Therefore, a housewife shopping for national brands in Boston could realize a net gain by patronizing any of the stamp food chains. By paying the additional 17 cents at the stamp store, she receives stamps valued at approximately 70 cents, thereby realizing a net gain of 53 cents. A note of caution was inserted in the study at this point to remind the reader that the study applied only to nationally advertised brands. It was indicated that a larger price spread would probably be found if private brands and products in the fresh meat and produce categories could be compared.

Finally, it was found that one small stamp chain had the lowest total price of all the chains in each of the three weeks the test was held.*

An analysis of food price trends in United States Bureau of Labor Statistics cities of varying stamp penetration was made by Eugene R. Beem, Assistant Professor of Business Administration, University of California at Berkeley. By arranging the 20 cities, reported on individually by the United States Bureau of Labor Statistics, in the order

* 11, pp 10-12

of stamp penetration, Professor Beem found that over the 24 month period of stamp expansion, December, 1954 to December, 1956, food price levels rose in inverse relationship to the extent of stamp penetration. For all United States cities prices rose on an average of 1.8% in these 24 months. Of the 20 cities reported, five in which no supermarkets offered stamps showed a price rise of 2.8%. Five cities in which some stores gave stamps, but less than 50% of them, showed an increase averaging 2.0%. In 10 cities with 50% or more of stamp penetration, prices rose 1.3%. In three of these latter cities with the highest degree of stamp penetration among retailers, namely 75%, prices rose only 1.2%.*

Professor Beem also mentions the limitations in the data. He believes that the index may be too blunt to support definite conclusions regarding the impact of stamps on price, the reason being that the United States Bureau of Labor Statistics prices a sample of 90 widely used food items in a cross section of chain and independent stores in 46 cities, collecting prices at midweek once each month. He feels that the index fails to pick up the possibility that prices may be raised by a reduction in the number of week-end specials. Finally, price reductions by non-stamp stores could have offset price increases by stamp stores.

The latest study made by the United States Department of Agriculture on the impact of trading stamps on food prices was based on a 21 city survey by the United States Bureau of Labor Statistics between November, 1953 and March, 1957. This study found that food prices increased 0.7% during this period in stores that began trading stamp plans.

* 45, pp 123-136

In the non-stamp food stores, prices rose only 0.1% during the same period. On the average, therefore, retail food prices have shown a 0.6% greater increase in stamp-using stores than in non-stamp stores. It is well to remember that these are averages and as such do not apply to any individual store. However, the report indicates that on the average, the housewives who save stamps and redeem them can more than recoup the relative price difference between stamp and non-stamp stores.*

In a response to a mail questionnaire sent to users of trading stamps by Super Market Merchandising, operators of 85.3% of the chain and independent supermarkets said that they made no change in prices since taking on stamps. Operators of 5.4% of the stores said that they had increased prices, while operators of 9.3% of the stores said that they had lower prices.**

It should be noted that in a survey of this type, the respondents in answering a mail questionnaire may interpret questions in different ways. For example, a retailer who reduced week-end specials and thus raised prices may not have regarded this step as a real price increase.

If a retailer did raise his prices to cover the cost of the stamp plan, it is believed that some customers would shift their buying to other stores. If the store raised its prices by 1½%, the cost of the stamps, a loss of 9% of its customers is sufficient to leave the store worse off even though its prices are higher. For example, suppose a store is operating with a gross margin of 18%, that is, it will clear

* 76, pp 18-25
** 58, pp 106-107

$0.18 on every $1.00 of sales to go toward store expenses and net profit. An increase in prices by 1½% will result in a gross margin of 19.2%. Before the price increase, the store had to have $5.55 of sales in order to clear $1.00. After the price increase $5.21 of sales will provide this $1.00 ($5.13 in transactions measured by previous prices). If the retailer losses more than 8.2% of his previous trade, he will earn less profit than he did before the price increase, assuming that there is little or no reduction in total operating costs as sales decline.

In a specific retail situation evidence may be found to support either position, that is, the consumer does or does not pay higher prices for his food items when a retailer adopts stamps. Food prices can vary from community to community or from one buying area to another. It would appear that only individual analysis of individual situations can uncover whether or not the consumer is paying a higher price in such circumstances.

Where consumers demand a stamp plan, stamps may be used beyond the point where the cost can be economically justified. In such cases retailers are likely to adjust prices to cover the costs and the consumer is paying for the stamps.

If cost is passed on through increased prices, consumers may not share the burden equally. Those who do not save stamps may be paying part of the cost for those who do. If prices are raised on luxury goods, the burden of cost may fall to a large extent on those buying such products.

The retailer's ability to offset the cost of stamps is so completely dependent upon local conditions -- the store location, the competition of his associates, and the store merchandise program -- that it is difficult to make generalizations.

Other Methods of Reducing Cost

The retailer can at times use other methods to meet the cost of stamps when sales do not increase sufficiently to offset this new burden. The savings resulting from the reduction in these operating expenses may be large enough to cover the stamp cost. This enables the retailer to adopt stamps and their cost without a similar increase in food prices.

The retailer can adopt the practice of not giving stamps on credit sales, delivery, pick-up, and on phone orders. Of these, credit is probably the most important. These restrictions on issuing stamps not only tend to reduce the cost of stamps to the retailer, but where stamps are given, tend to reduce other operating costs such as delivery, bad debts, bookkeeping, and requires less money to be tied up in accounts receivable. The customer has the choice of using the services offered or being rewarded through trading stamps for not using them.

Another way to reduce the cost of stamps is to employ stamps as a means of spreading sales evenly over the week. This is usually accomplished by double stamp days on days having light sales volume. A more efficient use of labor, equipment, and inventory often results.

Food retailers operating with low markups may cover stamp costs by adding to their inventory items carrying a higher-then-average markup. Examples of the latter are drugs, cosmetics, hardware goods, housewares, small electrical appliances, books, magazines and stationery, and clothing. The consumer does not pay a higher price for these items; the savings have resulted because the items are being sold through a store which can operate at a lower gross margin.

In order to help reduce the cost of stamps, some retailers have decreased the use of "specials," "leaders," and discount sales after adopting stamps.

Other retailers have cut down expenditures by curtailing some forms of advertising. The latter may include local newspaper space, throwaway leaflets, etc. At times the retailer may believe that after adopting stamps, he doen't need as much traditional advertising as he had needed previously.

Some retailers may feel that stamp costs could be covered by adding the additional cost to the slower moving items. This is not practical for the rapid turn-over items account for approximately 80% of all store sales. The remaining items, although they represent 80% of all store items, only account for 20% of the sales volume. In order to increase total revenue by 1½%, the cost of the stamps, it would be necessary to increase the prices on these slower moving items by approximately 7.5%. This could not be done without sales volume being seriously affected.

<u>Summary</u>

There is no reason to suppose that the total volume of food products available for distribution or the quantity consumed at any given time is affected materially by the use of trading stamps. Where an increase in sales volume has occurred in a retail outlet, it can usually be accounted for by a shift in patronage from those outlets having ineffective stamp plans and non-stamp stores to effective stamp outlets.

With the comparatively low markups on most food items, the retailer must offset a cost of this magnitude in some way. The cost of stamps may be nullified by (1) a reduction of unit costs by increasing the quantity of merchandise sold, (2) the reduction of other forms of sales promotion, and (3) stocking items having higher markups, other than food.

There seems to be no single answer to the question, "who pays." Adequate data needed to answer the questions raised are not available and may be difficult to obtain even with the wholehearted cooperation of retailers. It would seem that an answer to the problem of how stamps have affected food prices can only be answered by a long-time series of price checks before and after stamps, the use of a large enough sample to be meaningful, broken down according to stamp and non-stamp stores, and the collection of midweek and week-end prices.

It would seem that if it is necessary to use higher prices to cover the costs of a stamp plan, then the plan would be self-defeating. Also, unless a sufficient increase in sales volume is available to help offset the cost of stamps, a retailer should not use them.

The cost of a stamp plan may be borne by the retailer or by the consumer or it may not increase total costs due to efficiencies gained from the advantages of the stamp plan as a promotional device.

The answer varies from store to store. It may be that only the price conscious consumer, with the time and energy to do comparative shopping and keep account of the results, can find the answer. Today even comparison shopping is becoming more and more difficult as the variety and sizes of branded foods expand.

Chapter 7

Other Advantages and Disadvantages of Trading Stamps

The previous chapter dealt with the two important questions: the effect of stamps on prices, and the effect of stamps on sales volume. To the consumer saving stamps and the retailer using stamps as a promotional device, these questions are of prime importance. In this chapter, other advantages and disadvantages associated with trading stamps will be discussed.

Do Consumers Receive "Something for Nothing" ?

In a literal sense, no one gets "something for nothing." In some instances consumers do receive their stamps at no extra cost, due to increased sales and/or the more efficient operation of the retail store. The latter enables the retailer to absorb the cost of the stamp plan without raising prices.

It is generally believed that many housewives are of the opinion that there is no substantial difference between the food pricing of various supermarkets, that is, that all are competitive in price. It is therefore easy to understand why premiums are regarded by housewives as "something extra" for the household.

Dr. Bertrand Klass of Stanford University discovered that many housewives looked to trading stamps as a method of painless saving for wanted luxuries. In addition, saving stamps tends to improve the housewife's self-esteem by causing her to feel that she is thrifty, economical, and a good manager. A summary of his findings show that: (1) stamp savers enjoy a reputation for being economical and thrifty, (2) saving stamps satisfied the collecting instinct in many people, which is similar to the pleasures some find in collecting foreign stamps, unusual teacups, or antiques, (3) there are satisfactions in the actual redemption of the completed saver books, and (4) there was a feeling of enjoyment simply in getting something without paying for it.*

There are many other promotional devices which the consumer may classify as "something for nothing." These include the giving away of such things as automobiles, trips to foreign lands, electrical appliances, etc. However, these promotional devices, when used by the retailer, benefit only a few people, that is, just the few lucky people who happen to win the prizes. In contrast, the trading stamp spreads its benefits among the many stamp savers, since the stamps of each saver can be redeemed for valuable gifts. As these devices are all accepted as part of the promotional program, it seems only logical that trading stamps should be regarded as a sales promotional device.

Do Stamps Help Small Business ?

The vast majority of merchants using stamps are the relatively small independent retailers. They have adopted stamps as a means of attracting and holding customers and as a means of fending off the disastrous results of the predatory practices of the larger retail outlets, made possible by sheer size and power.

To the small retailer the use of trading stamps as a sales

* 10, pp 10-12

promotional device can be accomplished with a small known financial outlay. Additional costs can be met as sales occur.

The small retailer, having only a minute share of the present market, can by capturing a fraction of the remaining market increase his sales sufficiently to cover the cost of the stamp plan. This type of store, therefore, has a distinct advantage in the use of stamps, as well as with other promotional devices that need only divert a small per cent of consumer patronage.

The use of stamps may be a means whereby small retailers can compete with the advertising promotions of their larger competitors. The small store does suffer a cost disadvantage in its advertising expenditure. The cost of advertising in the larger food chains is spread over the many outlets using that particular medium. In the single store or small chain, the cost must be borne by one or a few stores. Therefore, because of this excessive cost the smaller retailer cannot use the same advertising medium as the food chains. In addition, the use of such a medium would be uneconomical as the advertisement would be wasted on many consumers outside the trading area of the store.

Further, retailers in secondary areas often adopt stamps as a means of compensating for their inability to match the basic merchandising attractions of the larger food outlets.

<u>Does the Consumer Gain From Trading Stamps ?</u>

If the housewife may make her purchases in a stamp-giving store and still buy at prices comparable to those in non-stamp stores, then what are the stamps worth to her?

In order to arrive at an answer to this question, the value of brand name items offered in the stamp catalogue, issued by the stamp firm, were compared against the prices of the same items found in a mail order catalogue and regular retail outlets.

To estimate the dollar value of a book of stamps, the prices, obtained in the mail order catalogue and the regular outlets, were divided by the number of books required for the particular premium. Also, the value attributed to each stamp book depend on whether the price of the premium was computed at the higher "suggested" retail price or at the cash discount price.

Several prices were obtained for most of the articles compared, but all the items compared were not available in all places. The premiums compared were mostly electrical appliances and housewares, for these items not only carried branded names but they also seemed to be the most sought after premiums by stamp savers.

Using the suggested retail price as a basis for comparison, the value of one booklet varied between $2.24 and $2.70. At the lower cash prices, the value of a stamp book fell to a low of $1.73. Therefore, for each dollar spent to fill a stamp book, the consumer received a return of approximately .0096 cents when cash prices were used as a basis for comparison and .014 cents when suggested retail prices were used.

At the cost of $15.00 for 4,000 stamps, the retailer pays .00375 cents per stamp. Therefore, the cost to the retailer of a book of 720 stamps is $2.70. To accumulate a book of 720 stamps the consumer has to make purchases totalling $180.00.

The answer seems to be that stamps do have some value to the consumer. Also, the consumer appears to be satisfied with the merchandise offered as approximately 10,000 premiums per week are redeemed by one of the larger stamp firms.*

<u>Benefits Are Neutralized When Competitors Adopt Stamps</u>

In areas where stamps have been most popular, the saturation of the market with this form of sales promotion has never been reached. Therefore, any discussion concerning what will happen in a market area when such a condition arises must be hypothetical for it has yet to be experienced and it is doubtful if it will ever occur.

One reason why such a condition will probably not occur is that trading stamps are not a basic merchandise attraction. The main reason a retailer adopts stamps is to help differentiate his store effectively from that of competitors. However, it must be remembered that in this struggle for differential advantage the most important factors are still location, factors of convenience, wide selection of merchandise, competitive pricing policies, good quality, physical facilities that are clean and attractive, and helpful personnel. This is borne out by the obvious fact that a store need not have trading stamps in order to survive and prosper.

Again, nearly all stamp plans involve a franchise system. Those merchants who cannot offer a strong stamp plan will ordinarily prefer to compete on a non-stamp basis.

Further, a stamp plan is a competitive promotional tool. It

* 104

is a fact that stamp plans differ widely in over-all effectiveness. The stamp plan which starts first and which is promoted and merchandised properly will be more effective than the come-lately stamp plan. In non-competitive fields, the advantages of the plan increase for each retailer using it. These advantages decrease with the increased use of other stamp plans by competing retailers. The latter must increase sales by attracting sales from the stores that already use stamps. If a particular market did become saturated then these advantages to the retailer would disappear, along with the ability to offset the cost of stamps. At this point, the competition is largely stamp versus stamp. Under such conditions retailers may settle down to live with stamps and adjust their prices upward to offset stamp costs, or by mutual agreement stamps may be forced out of certain market areas, or some stores may discontinue stamps and turn to a new promotional device. By this time also, it may be that in addition to the customers who never wanted to be bothered with stamps, other customers will have lost their zeal for collecting stamps and will no longer be influenced by stamp deals.

To obtain information on this particular point, Super Market Merchandising asked retailers the following question: "According to your comparative entry into stamps with relation to your competition, how effective have stamps proved for you?"*

About 82% who had introduced stamps first in their respective market areas reported that effectiveness was, and remained, "good"; and 50% who introduced stamps second reported "good" results. However, only

* 58, pp 106-107

42% of those introducing stamps third or later in their market area reported "good" effects.

Is Premium Distribution Unfair to Other Retail Outlets ?

The statement that premium distribution deprives other outlets of sales they would otherwise have made, is often repeated by those opposed to the use of trading stamps as a promotional device.

Although this contention has ready appeal, it seems to make little of the fact that for the most part consumer demand is insatiable. In many cases it may be a question of whether the housewife would be able to have the premium at all, if it were not for the stamps which she has acquired in her everyday shopping.

If a customer is able to purchase a wanted article in cash, in all probability she will do so. To wait an indefinite period, while collecting the necessary stamps for a wanted and needed item, seems absurd when she could go right out and purchase it.

If only a small number of retailers are using stamps, it is doubtful if the demand for premium merchandise in that market will be injured. If, on the other hand, the market became saturated with this type of promotional device, then it is possible that the regular retail outlets for this type of goods will be affected.

The use of appliances, in self-liquidating plans by a number of retail food stores in the Montreal area, did bring about a reduction in price on these items in some hardware and appliance stores.

Are Stamps Difficult to Discontinue ?

Sales promotion with trading stamps is largely mechanical and is much the same for all stores. Stamps provide no store distinctiveness and do not establish a patronage motive when competing stores also use stamps. If stamps are discontinued, any patronage motive emphasized in the sales promotion is lost.

To the retailer, the stoppage of stamps is as much of a problem as changing from a credit store to one that sells for cash only, or the discontinuing of other services that are desired by some of its customers.

The methods used to discontinue stamps have been the use of price reductions and/or the substitution of other special premium promotions, accompanied by a strong advertising campaign. The latter is the means by which the customers are informed of the benefits that will accrue to them because of this change in store policy. Also, it is through the medium of advertising that each customer, with unredeemed stamps, will know what arrangements have been made to satisfy their claims and thus not cause customer ill will. Today, it is believed by some retailers that stamps are easier to discontinue than was originally supposed.

Before adopting trading stamps it is well to consider those forms of promotion that emphasize price, quality of merchandise, reliability of the store and its employees, and why the store is a pleasant and enjoyable place to shop. These types of promotion effect a lasting reputation and may be intensified or discontinued to meet changing marketing conditions. Inflexibility is an important reason why some of the larger stores do not want to use stamps. Also, the reputation they develop is owned by the store and is not the property of a trading stamp firm.

Other Benefits Attributed to Trading Stamps

After the adoption of stamps, it is the contention of some retailers that customers now shop the whole store. They buy from all departments, raising the ratio of total sales made by the more profitable departments. This may result, at times, in improved profit margins and expense ratios because the increased volume reduces the overhead expense ratio and provides larger margins. Aiding this improvement is the reduction in the number of specials, leaders, and markdown sales.

The use of stamps may tend to stabilize business because the housewife has become a stamp saver. In order to accumulate stamps the housewife returns more often to the stamp-giving store to buy more of her daily needs. This stabilization of business could lead to better ratios of merchandise turnover with corresponding reductions in space and investment.

The adoption of stamps may save retailers from the time consuming effort of planning and preparing special promotions and regular promotional programs which are usually reduced after adopting stamps. The retailer has more time to devote to other duties.

Stamps can also be used to reduce many costly promotions such as slow collections, bad debt losses, deliveries, phone orders, and other extra services. The elimination of such practices can normally be accomplished without the loss of customer goodwill.

If the retailer is now able to operate on a strictly cash basis, his working capital is kept liquid so that his need to borrow money is reduced or eliminated. This could allow him to take advantage of discounts available to him on cash purchases.

A method employed to spread volume more evenly throughout the week is to have double stamp days on the store's slow days, usually Tuesday and Wednesday. This type of stamp policy helps to reduce the overhead expense ratio because the facilities of the store can be used to capacity or near capacity all days of the week.

From the consumer viewpoint the question that must be raised is: does the value of the premiums exceed or equal the increased expenditures created by the elimination of specials, leaders, etc. If it does, the housewife has lost nothing. If the contrary is true, then the consumer is the losser.

Other Disadvantages Attributed to Trading Stamps

Stamps do create some headaches for the retailer. Often mentioned is the slow-down created when giving the stamp to the customer at the checkout counter. It is believed that this disadvantage can be overcome if the checkers are properly trained. The cashier usually has sufficient time to pass out stamps while the customer is putting away his change, while the packer is performing his duty, or while the next customer is unloading his grocery cart.

The fixed ratio of cost to sales method of selling stamps does not allow the retailer to adjust operations as conditions warrant. It is thought by some retailers that if special promotional devices are needed or certain expenses reduced due to volume decreases, it could be accomplished more easily if there were more leeway to adjust the outlay for stamps.

Another disadvantage to some retailers is that advertising is now used to stress trading stamps and not merchandise values. After stamps have been adopted, some retailers believe that additional advertising is necessary while others believe that lower advertising costs are possible. It is an accepted fact that stamps should be given additional advertising at the start of the stamp plan so that consumers may be aware that the store gives stamps. Advertising in media, other than those formerly used, is also needed to attract prospective customers and bring them into the store. This advertising question will be answered differently by each retailer. Therefore, a reevaluation of the advertising program will be necessary to determine the most advantageous method to follow.

Many retailers in small towns do not wish to engage in stamp plans because they dislike giving premiums which are offered for sale by other local merchants. Other reasons center around the fear of retaliation, the avoidance of popularizing premiums, and consideration for personal acquaintances.

To the consumer, stamps require not only the waiting for the premium but the counting, safekeeping, licking and sticking of the stamp, and the concentration of patronage at a particular retail store.

Summary

In addition to increased sales, other benefits are noted in the fact that the use of stamps: (1) tends to aid small businesses, (2) may improve profit and expense ratios, (3) for some retailers, provides savings in time and effort, (4) may benefit the consumer, and (5) reduces credit sales cost.

The cost of stamps may be reduced by: (1) improved gross profit margins due to shoppers' buying from all departments, (2) reduced credit, sales expenses, deliveries, telephone orders, etc., and (5) better merchandise turnover.

Possible disadvantages in using stamps include: (1) the difficulty in discontinuing stamps, (2) the possibility that benefits are neutralized when competitors adopt stamps, (3) the possibility that premium distribution is unfair to other retail outlets, (4) the possible slowdown at the checkout counter, (5) the inflexibility of a promotional device that varies directly with sales, and (6) the emphasis on stamps instead of merchandise values, store services, and facilities.

Chapter 8

Other Premium Promotions

Premiums have been in use for many years and they have always been a common device used by manufacturers, wholesalers, and retailers to favor customers. Premiums have enjoyed wide popularity and are used in many ways as an incentive to get people to do things, for example: to get customers to purchase a particular item, to secure distributor cooperation, or to stimulate salesmen.

Coupon Plans Used by Manufacturers and Wholesalers

A common method used to provide premiums to customers by manufacturers and wholesalers is the single transaction offer. In order to qualify for a premium the buyer need only purchase one item, for example: the Encyclopedia of Sports given with a purchase of a Gillette Super Speed Razor or dinnerware enclosed within a soap flakes package. At times an additional sum of money is required besides the enclosed coupon in the package showing proof of purchase. When the latter is required the consumer must send the money asked, usually to a post office box, along with the proof of purchase in order to receive the premium. An example of this type is the premium offered by Kraft Cheese Company - a pair of nylon stretch socks (retail value $1.00) for 50 cents and one coupon.

All offers of the latter type are called self-liquidators. This expression is used to identify the practice of allowing customers to purchase specified articles at a price which reimburses the manufacturer, wholesaler, or retailer for his explicit cost of the item, that is, the total direct costs for the premium, the merchandise plus handling and administration, are included in the offer price. The type of premium offered is usually restricted to merchandise carrying high margins. This tends to limit the assortment of premium merchandise offerable. Most offers of this type have time limitations.

Manufacturers or wholesalers using the self-liquidating type of premium usually have little extra cost associated with their premiums. Normally the redemption of the offer is performed by a premium manufacturer's representative, a premium jobber, or the manufacturer supplying the premium. Their sole function is the promotion of the offer and rarely is their cost increased significantly because of this. The most common method of promoting the offer is on the food package itself. This additional cost involves a modest fee for label plates or package flyers. The premium can also be promoted in the regular advertising of the offeror.

To the consumer the savings element is the difference between the cash required, if the latter is needed, and the normal retail price of the premium. Also, the inconvenience of mail-in offers must be considered for they require the addressing of a letter and the waiting for the premium to be delivered.

At the time of writing a combined coupon merchandising program, Giant Value Coupon Savings Jamboree, is being launched in Canada.* This promotion is being handled by Packaged Power Merchandising and the company plans to commence its program in April, 1959. The program was planned to effect volume product movement, wide distribution, and produce high dealer loading activity.

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The operation of this program is divided into two key market areas, each consisting of 500,000 homes. Key market area number one includes: Toronto, Hamilton, London, St. Catherines, Niagara Falls, Welland, Peterborough, Belleville, Oshawa, Kitchener, Galt, and Brantford, Ontario. Key market area number two includes: Montreal, Quebec City, and Ottawa.

The program includes a coupon mailing, post office delivered, of Giant Value Coupons to 500,000 homes in both key market areas. The mailing piece will consist of not less than 10 and not more than 20 perforated coupons, each giving special value on a brand name item. Participants are guaranteed that other products will be non-competitive and of established reputation. Also, all participants must agree on associating participants.

Each participating company will decide the worth of its own coupon or coupons. Each company will handle its own redemption. Each coupon will state that the retailer is to get two cents for handling.

Besides the coupon mailing, newspaper and radio advertising will back the program. In the newspaper advertising there will be a representative display space for each participant, featuring illustration and product sales story. The radio advertising includes 1,000 one minute announcements over a two week period. All participating products will get exclusive mention on their equal share of these announcements.

Window streamers, shelf-talkers, and mats will be furnished to retailers. Promotional kits will be available for salesmen.

To entice further consumer participation, a contest is also being held. First prize is a round-the-world trip for two. This prize is being given in each key market area. Entry blanks are distributed with the coupon mailing. The consumer has nothing to do, nothing to write but his name and address on the coupon and mail it to an indicated box number. In addition, a $500.00 Dominion of Canada Bond is to be awarded to the store manager whose customer wins the free trip.

The cost of each key market area includes the promotional kits, point-of-sale streamers and shelf-talkers, newspaper and radio advertisements, merchandising calls on leading chains and independent retailers, printing, postage, and mailing costs, consumer and trade publicity, mailing to key retailers, sales meetings, the free trip around the world, and the savings bond for the store manager.

Each key market can be purchased separately or as a full package. The same cost schedule applies to both market areas, that is:

One product participation	$13.00 per 1,000	$6,500 net
2nd product participation, same company	9.00 per 1,000	4,500 net
3rd product participation, same company	7.00 per 1,000	3,500 net
4th product participation, same company	5.00 per 1,000	2,500 net

This type of sales promotion device allows manufacturers to compete: (1) where the cost of sampling door-to-door and couponing in important markets on a sufficiently broad scale is prohibitive to do alone, (2) where extra merchandising power to launch a new product or revive an old one is needed, (3) where indifferent retailers turn down requests for preferred displays, and (4) where it is difficult to finance repeated selling pressure to hold one's gains in any given market area.

Retail cooperation is expected for volume traffic and sales are generated and traffic distributed store-wide instead of in one or two locations.

Retail Premium Plans

A new type of savings plan has been launched in Canada by Grand Union Supermarkets.* This savings plan was offered to the public in September, 1958. It pioneers a new concept in the field of savings and investments. The plan has been well received by financial experts and has earned acclaim for its vision and soundness. This type of savings plan is unique in North America and it may well serve as a model in other countries.

To enter this savings plan, the customer need only acquire a Sav-A-Seal Savings book at any Grand Union Supermarket. This book is then filled with Sav-A-Seals. The consumer may purchase a Sav-A-Seal for five cents at the checkout counter with every 50 cent purchase. For example: if a grocery order amounted to $14.25 the customer could procure 28 Sav-A-Seals. These would then be placed in the Sav-A-Seal book which when filled holds 440 Sav-A-Seals. Therefore, to fill a book a cash outlay by the customer of $22.00 is required.

After filling the Sav-A-Seal book, the consumer is then given three alternatives. These are (1) he can turn the completed savings book in for $23.00 in cash and receive a bonus of $1.00, (2) instead of taking the immediate cash outlay, he may turn the book in for a $23.00 Sav-A-Bond and this bond, on being held for a period of one year, may be redeemed for $25.00 in cash, or (3) he may retain the $25.00 Sav-A-Bond and receive 6% interest every year for another five years in the form of 50 cent coupons cashable every four months.

A consumer, by converting the Sav-A-Seals into a Sav-A-Bond

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and holding the bond for the one year before redeeming it, would receive a return of 13.6%. If the consumer foregoes this and holds the bond six years, the original savings of $22.00 has increased to a total of $32.50 or a return of 7.95% is earned.

The Sav-A-Seals or Sav-A-Bonds may be turned in at any time and the holder will receive the full amount back, even if the book is not completed.

The Grand Union savings plan is for would-be investors who would like to start investing but up until now had not sufficient capital to do so. Now a regular system of savings can be started by accumulating five cent Sav-A-Seals.

The company policy of not divulging any details of any promotion, successful or unsuccessful, is reponsible for the lack of pertinent information. However, it has been stated that the plan has been well received by the public and to all intents and purposes will continue that way.*

The Independent Grocers Alliance of Toronto, Ontario has inaugurated a plan known as the Family Dividend Plan.** This plan was put into operation in October, 1958. It is a plan by which the I G A dealer offers his customers a "dividend" on the money they spend in his store, in the form of dividend credit slips. These credit slips may be used when buying more food products or when buying from a large range of items, other than food, which are listed in a catalogue provided for this purpose. Dividend credit slips are also received on the items purchased

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from the catalogue. This catalogue contains 116 pages and lists more than 1,500 family and household needs. Anyone can order merchandise through the catalogue but to use dividend credits the buyer must register as a member of the plan.

To join the Family Dividend Plan, the customer need only register at his nearest I G A store. If this is not possible, then one need only complete the application blank made available in local newspapers and mail it to any I G A store. The completion of the application entitles the applicant to full membership priviledges without cost or obligation.

The plan operates in the following manner. The consumer will receive a dividend credit slip equal to one cent for every dollar spent in an I G A market and a dividend credit equal to five cents for every dollar spent on merchandise ordered through the Family Dividend Plan catalogue. These purchases will entitle the purchaser to further dividend credits. For example: if an article costing $40.00 is purchased through the catalogue, the buyer is entitled to a dividend credit of $2.00. If this credit slip is then used to purchase a $2.00 item, a further dividend of 10 cents is received. If the credit slip is used instead to purchase food, a dividend of two cents would have been received by the consumer. These dividend slips could be used again in purchasing other articles and credit slips would be received again by the purchaser.

Dividend credits are issued in denominations similar to money, one cent, two cents, five cents, and one dollar. The breakage policy is at 90 cents, that is, an item costing $2.69 in the catalogue entitles the buyer to 10 dividend credits while a 99 cent item is entitled to five dividend credits.

An extra catalogue supplement is to be issued nearly every week. The merchandise offered in this supplement will not be offered in the Family Plan catalogue. These extra offers will be money saving special value opportunities that are available from time to time, seasonal specialties, new products being introduced to the public, etc.

While it is too early to assess the results of the plan, Mr. R. D. Wolfe, General Manager, Oshawa Wholesales Ltd., revealed that close to 50,000 registrations were received in the first two weeks. The consumer has shown considerable interest in the plan and the volume of purchases has been rising steadily from the first week the plan was publicized.* A true evaluation of the plan can be had only after a six to 12 month trial period.

Still another type of premium promotion device used to entice consumer patronage is a patented operation called "Check-Out."** This promotional device is controlled by the same group offering "Cross-Out" in the United States. It has been employed in Eastern Canada by Steinberg's Ltd., Sobey Stores Ltd., and Loblaw's Ltd. Check-Out is operated on a territorial franchise protecting against any plagiarism on the part of competitors.

Check-Out or Cross-Out is similar to bingo. A customer receives, one week prior to starting, a mailer describing the operation of the contest. Enclosed in the mailer is the customer's first free card. Thereafter,

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additional cards can be obtained at the checkout counter of the chain store on request with no purchase required.

The object of the game is to match the food items on the Check-Out card with the food items appearing in the chain's advertisement in the local paper. This advertisement, including the food items, usually appears in the Thursday evening paper. The games appear for a period of eight to 12 weeks. If the customer has five food items in a row, down, across, or diagonally on his card, then it is a winning card. By turning the card over, the customer can easily determine what has been won. It is permissible to play all cards, against all advertisements, printed for all weeks but in order to have a winner, all food items must be taken from a single advertisement.

The promoter of this device works with the advertising department of the chain on advertisements, mailer, pennants, window signs, etc. During the promotion any necessary follow-through is provided.

Those in charge of this promotion estimate from past experience that approximately 40% of the chain's customers will play the game and that an increase of 20% is not uncommon in store traffic. Costs are said to be an infinitesimal part of sales.*

The theory behind Check-Out is that it is a planned promotion in which a given number of lucky cards are put into the promotion, depending on the number of prizes to be won.

In promoting the plan, figures are presented from previous operations that indicate that approximately 50% of the prizes are

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actually won. This is attributed to the fact that many of the customers lose interest in the contest after the initial two or three weeks of its operation. One user of the plan found that a much larger percentage of the prizes were won. This food chain estimated that approximately 70% of the premiums were given away. The latter amounted to 2,200 premiums with a retail value of $13,000.

The above user felt that the increase in sales volume made the effort worthwhile. The increase in sales volume was approximately 15% for at least six weeks of the promotion and lesser amounts towards the end. The promotion ran for 12 weeks.*

A user of Cross-Out in the New England area reported a cost of just under 2% of sales. The increase in sales volume during the period the plan was in operation, as compared to the previous corresponding period, was sufficient to cover this cost and increase profits. During the second round the plan was in operation, the sales increase was large enough to cover costs but provided little or no extra profit.**

Three types of premium plans used by many retailers at one time or another are (1) the give-away, (2) the self-liquidator, and (3) the coupon plan.

If the give-away plan is used, a premium is offered free with a specified minimum store purchase. This type of plan can be limited to any desired duration, such as, one week for a special event or for several weeks during which a series of offers can be made. The continuity feature

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of offering several items to make up a set can be used. The cost of this type of plan varies according to the premium offered but seems to average about 1% of sales.

The advantage of using the give-away plan is its economy, its ease of handling, its flexibility, and easy termination. The main disadvantage is the necessity to buy and stock premiums.

The self-liquidator plan operates for the retailer in the same manner as that already described under the manufacturer and wholesaler premium plans. The premium is usually offered with a minimum grocery purchase and cash register slips serve as proof of purchase. The premium usually carries a distributor margin of 10 to 20 per cent of retail price which is sufficient to offset direct expenses. However, this is far below the 50 to 60 per cent wholesale-retail margins which are common for this type of good in the normal market.

The advantages of this type of plan are (1) it is easy to terminate, (2) it does not require special handling at the checkout counter, and (3) it can be used with little or no out-of-pocket expense for premiums.

The coupon plan is normally operated on a self-liquidating basis. However, in order to acquire the premium the customer must present a certain designated number of coupons instead of money. The consumer may purchase a coupon with every 50 cents worth of purchases at a cost of five cents per coupon. The object of the plan is to interest the consumer in the smaller items offered and then hold his patronage for the more expensive items.

The main advantage of this type of plan is that the item is completely paid for by the time the premium is given. Therefore, no large outlay of cash is required by the retailer. One disadvantage is that the customer must save for a period of time before receiving the premium wanted and this may tend to discourage some customers.

A food chain with this type of premium plan used such premiums as floor polishers, small radios, camp stoves, bicycles, sleeping bags, etc. The premiums were priced at approximately 10% over their wholesale cost. Consumer acceptance of the plan was indicated as approximately $10,000 worth of merchandise was sold in a 10 month period.*

Opposition to these latter type of retail premium promotion plans is insignificant and definitely not as hotly contested as that against trading stamps.

Summary

Premiums, as a promotional device used to win consumer patronage, have been in use for many years. The principal types of premium offers are (1) the single transaction offer in which the purchaser can qualify for a premium with one purchase, and (2) the continuity offer in which a series of purchases are required to obtain a premium.

The single transaction offer includes the give-away and the self-liquidating plan. Most of these plans have time limitations. The assortment of premium merchandise is usually narrow for the premiums consist mainly of items carrying high margins. Mail-in offers require the inconvenience of addressing a letter and waiting for delivery. The use of

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unknown brands as premiums in mail-in offers often results in loss of consumer interest. At times, the premium offered is unwanted by the purchaser.

Probably the most popular of the single transaction offer is the self-liquidating plan, requiring additional cash besides proof of purchase. When this plan is used, total direct costs for the premium are included in the offer price.

The continuity transaction offer includes trading stamps, Sav-A-Seals, Family Dividend credit slips, Check-Out, and coupons. Promotions of this type require the accumulation of a certain number of tokens before redemption is possible. For the consumer it requires the counting and safekeeping of either stamps, Sav-A-Seals, dividend credit slips, or coupons. It also requires the concentration of patronage at a particular retail outlet.

In the past few years many different types of premium promotions have been presented to the consumer and the enthusiasm displayed by the consumer for these promotional devices seems to indicate that many of them were well received.

For the retailer, premiums can be effective and profitable and they can build consumer goodwill. When premiums are used wisely, they can be an invaluable and economical means to higher store traffic and higher sales per customer.

Chapter 9

Summary and Conclusions

Trading stamps were first introduced to the consumer in Canada at the turn of the century. The basic features of this promotional plan have undergone practically no change since its conception. These features include (1) the continuity feature which requires consumers to accumulate stamps or cash register tapes, thus making continued patronage essential to obtain premiums, (2) all plans offer a premium for loyal patronage, (3) an exclusive franchise for each retailer in a market area, (4) the use of a stamp of low unit value, and (5) a ratio of stamps to sales which permits giving a stamp on small purchases.

Trading stamps had a short life in Canada at their beginning because of their unbusinesslike method of operation. The latter resulted in the passing of a trading stamp law in 1905 outlawing their use. Trading stamps then became virtually unknown until 1954.

At this time trading stamps once again invaded the retail field. Their usuage was enhanced by the phenomenal expansion of stamps in the United States starting in 1951 and the technical weaknesses found in the existing law. However, the latter has limited the growth of trading stamps as a promotional device. The western provinces have virtually eliminated trading stamps due to the successful prosecution of retailers using stamps. The attitude of the eastern provinces has been a hands-off policy until the present law is amended.

Since stamps were first introduced in 1954, many small retailers have adopted them as a means of competing against the larger food chains, especially in Ontario and Quebec.

The I G A stores in the Ottawa area were the first major group of retailers to inaugurate a stamp plan. Immediately following in the same area were the three major food chains, namely, Dominion Stores Ltd., Loblaw's Ltd., and Steinberg's Ltd. After a short period of time the chains converted to cash register tape plans. In mid-January, 1959 the 132 I G A stores in Quebec adopted a stamp plan. Once again, with the exception of A & P Stores, the major chains were issuing stamps. Unless government intervention prevents or eliminates stamp usage, this recent development may bring about an upswing in the use of stamps in the retail food field.

The use of premiums as a sales promotional device has been stimulated because the rapid expansion of supermarkets has built up a surplus capacity of food retailers in some areas. Furthermore, the general standardization of store appeals has eliminated them as a means of differentiation, while the initial offering of a stamp plan in an area does provide an opportunity to differentiate. Again, the growing need to be concerned with retaining existing patronage and increased fixed costs have made premiums attractive as a means of retaining or expanding sales.

Trading stamps represent an expense to retailers. Unless new efficiencies result from the use of stamps, the cost of these stamps to the retailers must be absorbed by lower profits per dollar of sales and/or higher food prices. The chief problem of the trading stamp issue is: who actually bears this expense, who benefits. Those retailers who favor stamps argue that they do not increase food prices. Moreover, they state that, under certain conditions, stamps increased sales volume sufficiently to offset the cost of stamps and provide additional profit for the retailer. The opponents of trading stamps maintain that consumers bear this expense through increased food prices.

The first stores to adopt stamps in a particular area usually use stamps as a competitive device which they hope will increase sales and thereby decrease costs sufficiently to offset the cost of the stamps. Other stores adopt stamps as a defensive measure to meet the competition of other retailers who give stamps. Those stores not using stamps as a competitive device emphasize lower prices to hold present customers and to attract new ones.

A retailer, in deciding whether or not to adopt stamps, should consider the objectives which the plan is expected to attain, the store situation, and the market characteristics. The retailer should be (1) reasonably certain that an increase in sales volume of 10 to 15 per cent is possible, (2) that the store is competitive with respect to location, quality, prices, and merchandise assortment, (3) that the store's physical facilities will permit a 10 to 15 per cent additional sales without lowering efficiency, (4) that the trading stamp used is one widely accepted in the market area, (5) that the store should be prepared to adopt stamps without raising food prices, and (6) that the retailer must be prepared to give stamps on every purchase.

The major benefits that may be derived from the use of stamps are (1) increased sales volume, (2) improved expense ratios, (3) savings in the time and effort of retailers, (4) reduced credit sales costs, (5) tendency to build loyalty and goodwill for one store, and (6) customers shopping of all departments. The major weaknesses in adopting a stamp plan are (1) costs of stamps may be prohibitive, (2) to offset costs, prices may have to be increased, (3) stamps may be difficult to discontinue, and (4) benefits may be neutralized by a competitor's stamp plan.

The possibility of retailers increasing food prices to cover the cost of stamps will depend on the local competitive situation and the appeal of stamps to consumers. The retailer must always remember that price increases offer the danger of losing customers to competing stores. Therefore retailers must use discretion if they raise food prices to offset the cost of stamps.

The possibility of entirely offsetting the cost of stamps by any one particular method is rather remote. Therefore the retailer will try to use some combination of two or more methods depending on the individual competitive situation to cover the cost of stamps.

However, under the existing competitive conditions in retail food outlets and from the surveys conducted in the United States, it would seem that the cost of stamps is covered in part by reduced costs resulting from increased sales volume, in part by higher food prices, and in part by a decline in profit per dollar of sales.

With respect to other types of give-aways and premiums, retailers may find that these are not so necessary as they previously were. However, it appears that stamps are not a substitute for advertising. For the single smaller store not having the sales volume to make paid advertising such as newspaper, radio, and television practical, this is a disadvantage.

Perhaps the easiest way to combat a premium plan is to counteract the competitive balance by offering another type of premium plan. Some retailers feel that premium plans can be counter-balanced by (1) improving merchandising methods, (2) maintaining good customer relations, and (3) offering direct price inducements. Evidence indicates that premiums have heightened competition and this often has taken the form of reduced margins, give-aways, self-liquidators, etc.

Many retailers dislike trading stamps because of the high cost they must pay for the stamps. Probably even more important is the fact that a third party, who is outside the industry, is living off the retailer's sales.

It is imperative that serious consideration be given to premium promotions by every retailer when they make an appearance in a trading area. There can be no doubt of the appeal that "something for nothing" has to the consumer and that increasingly competitive situations will foster the growth of these plans.

Finally, trading stamps are not a panacea for all the ills of competitive retailing. The retailer's premises, selection and quality of merchandise, location, and prices must be as attractive as that of his competitors, otherwise, trading stamps or any premium promotion is unlikely to provide him with the volume increases required for increased profits.

To eliminate trading stamps by legislative action is to deny stamps the right to the market test which is the very foundation of a competitive economy. Legislation should not limit, destroy, or weaken the right of one to use his faculties to pursue any lawful trade, occupation, or business that is conducted in a proper manner except when necessary for the common welfare. Legislation should not protect some class in a community against the fair, free, and full competition of some other class so as to protect the former if they have suffered from it in trade competition and are unable to maintain their position against such competition.

For if legislation can ban stamps, why not advertising, special displays, price specials, charge accounts, home delivery, air conditioning, and any other means of attracting customers?

Originally the trading stamp law was adopted to protect the consumer from the unethical business practices of the stamp firms of the 1900's. Today, because of a more highly informed public, improved methods of communication, a closer scrutiny of new forms of business enterprises by consumers and business associations, and the attitude of local, provincial, and federal governments in protecting the buying public against unfair business practices, such abuses are for the most part non-existent in our competitive economy. It would therefore seem that the original reasons for adopting the trading stamp law no longer exist. Also, trading stamps cannot and should not be classified with lotteries, that is "a chance for a prize for a price" as was done by some members of Parliament in the debates in the House of Commons in 1905.

It is a known fact that many improvements in merchandising methods, accruing largely to the benefit of the consumer, have taken place in the marketing of consumer goods since the early 1900's. There is little similarity between the merchandising policies used by retailers today and those used by retailers at the turn of the century. Therefore, there appears to be a need for a review of the present law in order that it may reflect more accurately present-day merchandising policies.

The present legislation should be reviewed to see if preference is given to one class of retailers above another or that it has been designed to destroy one type of business because its successful operation will result to the detriment of others in competition with it. Preference may be found as the original law, prohibiting the use of stamps, was adopted as a result of the determined opposition of the Retail Merchants' Association of Canada, Inc. Even today the principal opponents of trading stamps appear to be mainly retail organizations.

If a review of the trading stamp law is made and it is believed that some measures are still necessary to protect the consumer from possible abuses by stamp firms, then these protective features should be included in the revised legislation. An aid to the latter may be the recent stamp legislation passed in Massachusetts.

However, it would appear that the review and the favorable amending of the trading stamp law is not desired by all food retailers. In Canada there seem to be three groups of retailers whose opinions vary as to the use of stamps as a promotional device. One group seems to favor the use of stamps as a promotional tool while the other two groups seem to favor the complete elimination of the use of stamps in the retail food field. These groups are (1) the independent retailers located in highly competitive marketing areas, (2) the independent retailers located in rural areas and the lesser competitive marketing areas, and (3) the retail food chain located in the larger towns and cities.

The independent retailers in favor of the use of stamps as a promotional device are mostly located in highly competitive marketing areas. Relatively small in terms of market share, these retailers need only a slight patronage division from competitors in order to offset the cost of the stamp plan. Therefore, it would be to their advantage to amend the stamp law to allow the unrestricted use of trading stamps, that is, eliminate Section 322. For these retailers the association of as many different kinds of retailers in each market using the same type of stamp would enhance the value of the stamp because customers of each dealer may obtain premiums faster by patronizing other participating retailers. It would also be beneficial to these retailers if stamps did not have to be redeemed at the retailer's premises. With the redemption of stamps taken over by the trading stamp firm, the retailer would have more time to devote to other merchandising problems.

A few retailers, also relatively small in terms of market share, maintain a favored position in their market area because of merchandise handled, conveniences, or services offered. These retailers have developed a special clientele because of the latter reasons and will continue to attract these customers, with or without promotional devices, as long as the present store policies are maintained. If these retailers already enjoy an adequate sales volume, they would be ill-advised to adopt a promotional device as expensive as stamps. These retailers would have little interest in the stamp law.

The independent retailers located in rural areas do not like stamps because they dislike giving premiums which are offered for sale by other local merchants. Other reasons for disliking stamps are the fear of retaliation, the avoidance of popularizing premiums, and the consideration for personal acquaintances. These retailers would probably wish to have the present weaknesses eliminated and the stamp law enforced.

The retail food chains, in those areas where stamps are being used, have adopted stamps as a defensive measure. The executives of the larger food chains have, at one time or another, expressed a dislike for stamps as a promotional device. This dislike for stamps was expressed in the following statement made by Mr. R. G. Chisholm, Executive Vice-President, Dominion Stores Ltd.:

> "It is our opinion that Trading Stamps are parasitical and increase the cost of food distribution. Therefore, we should endeavor to keep them out of food distribution. It is our opinion that Trading Stamps will eventually be completely eliminated from the Canadian Retail Food Market." *

The anti-stamp attitude held by chain executives is enhanced by the fact that a large portion of the present food sales in the major cities takes place in chain food stores. It is believed that if trading stamps were used by the major food chains the distinctive feature associated with stamps would be lost and the possibility of attracting new

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customers into a specific store would all but disappear. Under such conditions the cost of the stamp plan could not be offset entirely by increased sales and lower operating costs but would have to be borne in addition through higher food prices and/or lower profits.

The market control of food sales by chains in the major cities is substantiated when we examine Charts II and III and anticipate present day food sales by chains. In 1951 food chains controlled a large portion of the food market in the major cities with the exception of those cities located in the Province of Quebec. These percentages will in all probability be higher when the next census is taken because chain supermarkets have undergone and are still undergoing a period of expansion.

Even in Quebec this expansion is taking place. For example, in the city of Montreal in 1951 the food chains controlled 34.1% of the market. Today Steinberg's Ltd. alone controls approximately 25% of this market.* In order to offset the cost of a stamp plan, a chain having this share of the market would need to capture approximately 5% of the remaining market. Today the four major food chains have a combined total of well over 100 stores in the Montreal area as compared to the 83 stores for all chains in 1951. This expansion is expected to continue as Steinberg's Ltd. has announced that it is opening a new unit at the rate of one per month for the next five years. The majority of these units will be opened in the Quebec area. Steinberg's Ltd. also expects to increase its present sales $100 million by 1963.**

In their fiscal year ending in 1958 Loblaw's Ltd., Dominion

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** Ibid.

Table II

Grocery and Combination Store Sales in Eastern Canada for Cities

of 30,000 Population or Over - 1951

City	Independents			Chains		
	No. of Stores	Sales $ '000	% of Sales	No. of Stores	Sales $ '000	% of Sales
Brantford, Ont.	57	3,790.6	45.3	6	4,583.6	54.7
Fort William, Ont.	83	4,531.3	57.2	7	-	-
Halifax, N.S.	250	10,354.1	58.4	22	7,365.8	41.6
Hamilton, Ont.	361	19,598.8	47.8	51	21,361.0	52.2
Hull, P.Q.	96	6,959.1	84.4	2	-	-
Kingston, Ont.	58	4,039.1	47.4	4	4,477.1	52.6
Kitchener, Ont.	62	3,364.8	38.5	5	5,373.7	61.5
London, Ont.	146	7,702.3	37.7	12	12,716.1	62.3
Montreal, P.Q.	2,341	131,849.0	65.9	83	68,130.3	34.1
Oshawa, Ont.	92	5,022.8	52.8	4	4,496.5	47.2
Ottawa, Ont.	238	17,002.5	43.0	35	22,561.9	57.0
Outremont, P.Q.	28	1,343.3	25.9	6	3,843.9	74.1
Peterborough, Ont.	49	2,236.3	26.3	17	6,252.3	73.7
Port Arthur, Ont.	89	4,137.1	63.7	4	-	-
Quebec, P.Q.	587	26,449.6	82.2	11	5,775.4	17.8
St. Catherines, Ont.	73	3,604.7	34.7	8	6,796.3	65.3
St. John's, Nfld.	235	9,784.3	91.5	1	-	-
Saint John, N.B.	227	9,138.1	73.0	2	-	-
Sarnia, Ont.	55	3,776.5	45.8	3	4,470.2	54.2
Sault Ste. Marie, Ont.	74	5,664.2	60.5	8	3,694.4	39.5
Sherbrooke, P.Q.	154	6,635.3	68.3	7	3,077.8	31.7
Sudbury, Ont.	87	5,802.4	59.5	4	3,956.9	40.5
Sydney, N.S.	132	6,300.0	76.1	5	1,973.7	23.9
Toronto, Ont.	1,124	54,105.1	42.8	104	72,368.4	57.2
Trois Rivieres, P.Q.	136	6,571.1	75.2	4	2,161.7	24.8
Verdun, P.Q.	113	8,371.5	49.5	10	8,533.8	50.5
Windsor, Ont.	214	13,348.4	52.0	19	12,321.5	48.0

Source: Ninth Census of Canada - 1951
Distribution - Retail Trade Volume VII, Table 14
Chain - four or more units
Grocery and Combination - establishments with and without fresh meat, respectively

Table III

Estimated Independent and Chain Grocery and Combination Store Sales

For Canada and Eastern Canada - 1956
(in thousands of dollars)

		Independents		Chains	
	Total Sales	Sales	% of Sales	Sales	% of Sales
Canada	$2,638,978	$1,542,648	58.5	$1,096,330	41.5
Atlantic Provinces	247,565	198,639	80.2	48,926	19.8
Quebec	748,536	516,486	69.0	232,050	31.0
Ontario	1,025,575	440,440	42.5	585,135	57.5

Source: Dominion Bureau of Statistics - Retail Trade 1956
Chain - four or more units
Grocery and Combination - establishments with and without fresh meat, respectively

Stores Ltd., and Steinberg's Ltd. had total sales volume of $787,932,218.*
The major portion of this total was accounted for in the eastern provinces and this represented approximately 39% of the total grocery and combination store sales in this area for 1956. Other chain sales figures are unavailable for many chains need not publish financial statements (a priviledge enjoyed by all corporations classified as private, that is, having less than 50 shareholders).

The control of a large portion of the present food sales in the areas where chains are located would therefore seem to be a major reason why chains have been reluctant in adopting stamps. Any store that dominates a market has a definite disadvantage if it decides to adopt stamps. When this condition exists, it is extremely difficult to bring in enough new volume to offset the cost of the stamps. The food chains would rather have the control and flexibility found in the other premium plans such as the self-liquidator plan, the give-away plan, etc. However, to meet the competition of other retail groups adopting stamps, chains have not been allowed to follow their desired policy regarding stamps in all trading areas. Mr. T. G. McCormack, President, Dominion Stores Ltd., made a public statement that he was not in favor of stamps but that Dominion Stores Ltd. would inaugurate a stamp plan in any market area so as to nullify this competitive situation.**

When 132 I G A stores in Quebec took on a stamp plan in mid-January, 1959, Dominion Stores Ltd. and Steinberg's Ltd. immediately

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adopted stamp plans so as to wipe out any possible competitive advantage that the I G A stores might develop in this area.

Therefore, the strengthening of the stamp law and the enforcing of it would seem to be advantageous to food chains. It would enable them to pursue their own promotional devices and would eliminate the competitive conditions that stamps would give to those retailers who may benefit from their use.

At this date, no study has been made to determine the effect of stamps on food prices in Canada. It may be that the food chains could raise food prices sufficiently to cover the cost of the stamp plan. However, in some areas part of the cost of the stamp plan may be absorbed by the food chains because of the promotional methods used by A & P Stores, that is, using price reductions as a means of combatting stamp competition. Again, the cost of the stamp plan may be offset by an increase in sales, the lowering of operating expenses, and the raising of food prices, the latter being accomplished by reducing the number of week-end specials, discount sales, etc. With all the major food chains adopting trading stamps in a particular area, it would seem that the cost of the stamp plan could not be offset entirely by increased sales.

The answer to the question of the effect of stamps on food prices in Canada cannot be accurately measured until a study of a long-time series of price checks before and after stamps, using a large sample, broken down according to stamp and non-stamp stores, and collecting both midweek and week-end prices is made.

Until such information is collected and analyzed, no generalizations can be drawn as to whether a consumer gets something for nothing, pays part, all, or even more than the cost of similar merchandise purchased for cash.

Another aspect of trading stamps which demands our attention is the Canadian consumers' attitude towards stamps. Most surveys conducted in the United States, to determine consumer reaction to stamps, have shown that in areas where stamps are available the majority of consumers save them. Canadians, tending to be more conservative than their neighbors to the south, may not show the same enthusiasm towards stamps as indicated in the United States surveys. However, in areas where stamps are being used, they appear to be well received.

The Canadian Association of Consumers is opposed to trading stamps. However, it may be that the association's support is derived mainly from those areas outside the densely populated central provinces and from localities where stamps are all but unknown.

A study of consumer interest in stamps should be undertaken in Canada. The objectives of such a study could be: (1) to measure consumer acceptance of trading stamps, (2) to study the drawing power of trading stamps, and (3) to study consumers' opinions about the cost and value of trading stamps.

Questions to be asked in a consumer survey of this kind could include: (1) do you take trading stamps when they are offered, (2) do you usually make an effort to shop in stores offering trading stamps, (3) if your stamp-giving retailer discontinued the trading stamp service, do you think you would shop at another store which would give trading stamps, (4) have you received any premiums in the past, (5) how long have you saved stamps, and (6) would you rather pay the price asked for a particular item and receive stamps or receive the item at the price asked less the cost of the stamp.

It is believed that consumers are interested in trading stamps for other reasons than the effect on retail prices. Consumers are interested in what they can expect in return for accumulating stamps.

To many consumers, even the active stamp saver, stamps are not regarded as an adequate substitute for a sound basic offering of merchandise, competitive prices, convenience, quality, and service by the retailer.

Important to the consumer is the convenience and dependability of redemption. Lacking these features a stamp's attractiveness in a particular market area will soon be reduced.

Finally, individual consumers who have a choice between stamp and non-stamp stores need to compare carefully prices, quality of food, and services in stamp and non-stamp stores in relation to the value of the premiums received from saving stamps in deciding whether saving stamps is worthwhile for them.

If a retailer decides that he is in a favorable position with respect to adopting stamps, he must then select the stamp firm with which he will affiliate himself.

The differences in cost between the many stamp firms is not great. Therefore, it is to the advantage of the retailer to choose the firm which will be most beneficial to him.

The stamp firm should not only provide point-of-sale displays, stamp books, catalogues, and stamps but should continue to show how these aids can be most effectively used.

The stamp company must also provide premiums of good quality and of reasonable redemption value. The quality of the premiums that consumers receive should be such that disappointment or dissatisfaction is not likely to occur. It is thought that the minimum average retail value of all premiums should approximate the average costs of stamps to retailers.

To insure the successful use of stamps as a promotional device, cooperation between the stamp company and the stamp users, especially the small retailer, is required.

A question, concerning stamps, which seems to require an answer is: Are trading stamps a form of unfair competition?

Essentially trading stamps are a promotional device and can be compared with many other promotional devices already in operation. Also, if consumers are to have the benefits of a competitive economy, they must realize that sales promotions are inevitable. It is fundamental to a competitive system that retailers be allowed to use whatever combination of goods and services they believe will attract in sufficient volume to provide an adequate profit. It is also the retailer's prerogative to adjust the combination and pricing policy in coordination with his own judgment.

The arguments often employed by those opposed to this method of sales promotion can also be raised against other forms of sales promotion. Examples are: (1) give-away promotions are advertised as without cost to the consumer, (2) exclusiveness is granted to retailers who have control over a particular brand in a retail area, and (3) the store's personnel is employed in operating give-away programs, carrying packages to parking lots, and in preparing newspaper advertisements.

Those retailers who say, "I don't like stamps but my customers force me to adopt them," must remember that in a competitive system if the consumer wants premiums or any other method of dispensing food then it is up to the retailer to provide them. His wishes are not supreme and only those retailers who accept the consumers wishes will survive.

From the social point of view efficiency in marketing is a question of the ratio of satisfaction offered consumers to the dollar input of marketing effort. When some consumers are better off as a result of premium plans and others are no worse off, then it is obvious that market efficiency has increased. When some consumers gain while others lose, we have lost any objective measure of efficiency and are reduced to value judgments.

It does not seem likely that premium promotion will meet either a rapid or complete disuse unless it occurs through government intervention. The reason for this assumption is that women like to receive premiums. Premiums seem to satisfy two wants at once: the feeling of thrift, for ostensibly the consumer pays nothing for the merchandise she receives, and satisfaction of the urge for more possessions, especially luxury items.

If such efforts are a part of modern-day merchandising, then stamp plans may have a broader appeal than other forms of promotion, such as trips to Europe or door prizes. Such are for the lucky few while stamp plans promise a tangible return to all who save them.

The disappearance of ineffective stamp programs is very likely. The retailer with a second-rate plan or basic merchandising deficiencies will soon discover that he is better off against strong competitors, both stamp and non-stamp, with some other type of consumer attraction.

It would seem that retailers can live with trading stamps and still earn profits but the retailer using this sales tool must make careful adjustments in his operating expenses and gross margin so as to maintain a satisfactory net profit. However, this device alone will not make a successful store. Success requires merchandising, imagination, and work on the part of the retailer.

The end of trading stamps, outside of government intervention, will probably occur when the public tires of the system, when a new promotional device is devised, or when the cost equivalent is reflected in higher prices defeating the whole purpose of their being.

Studies that examine consumers, premiums, and retailing in a particular market should be made to shed more light on the trading stamp problem. To date the available information has been scattered. This lack of specific information has left a gap in the understanding of the economic aspects of trading stamps. Such factual data would be of great assistance to businessmen and to the government. For the latter it could provide the necessary information to guide the legislators in adopting sound legislation.

Premium plans can be excellent competitive weapons. Yet, they cannot be regarded as a panacea for promotional problems. However, they can be of great assistance to retailers in improving their sales volume when applied under proper conditions and intelligent merchandising procedures. When properly used, premium plans appear to be as sound economically as advertising, special services, and other forms of sales promotion.

The executives of I G A and Clover Farms Ltd., the two major retail groups using stamps in the Ottawa area, have summed up their future plans with regard to trading stamps by stating, "We introduced the stamp programs to show our appreciation to our customers. We are continuing them."*

* 38, p 3

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<u>Interviewed</u>:

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