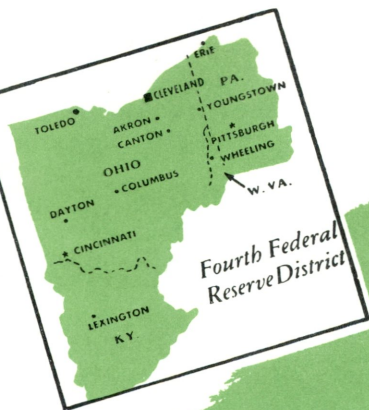




Business Trends

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TRADING STAMPS IN RETAILING

Trading stamps have become a prominent part of retail marketing in the United States in recent years. Although the oldest trading stamp company in operation today was established in 1896, the real expansion in the use of such stamps has occurred since World War II. It has been during the postwar years that the highly competitive struggle for business, particularly in food retailing, has brought about the widespread use of trading stamps by merchants to lure customers to their stores.

Trading stamps are provided to retailers by stamp companies, along with books in which to paste stamps, catalogues of premiums, and redemption services. The retailers generally pay from 1-1/2 to 2-1/2 percent of their gross sales for the stamps and the services. (In some cases discounts are granted for large volume.) Retailers distribute stamps to consumers commonly at a rate of one stamp for each ten-cent retail purchase. In turn, consumers exchange stamps for merchandise premiums. The premiums are listed in catalogues issued by the stamp companies. The catalogues usually offer between two and three thousand gifts with prices quoted in terms of whole and half books of stamps. The retail value of the premium usually is about 2-1/2 percent of the dollar amount of original purchases required to receive it. Although the catalogues offer a wide variety of gifts,

normally the selection is limited to only one or two models or styles of a particular item. This policy makes easier handling for the stamp company and enables it to take full advantage of discounts for volume purchases of the premiums.

Not all trading stamps are redeemed in merchandise at a separate center. Some plans are operated by the issuing merchant or a subsidiary company; in some cases, stamps are redeemed in cash or in the merchandise of the issuing store rather than in special merchandise.

The circulation of trading stamps is begun when trading stamp companies solicit a customer among the large chain supermarkets or major department stores in a particular area. Once established with a supermarket, for example, the stamp company then offers its stamps to other, noncompeting stores, such as service stations and drugstores. It hopes to build up a family of stores where individuals can buy the various products which they need and obtain the same brand of trading stamps at all the stores.

According to the Trading Stamp Institute, in 1962 about \$750 million of trading stamps were distributed by more than 250,000 retail outlets. The heaviest users of the trading stamp

promotional device are food retailers. Gasoline stations are the second largest distributors of stamps. The degree of market penetration by trading stamps varies widely from one area to another. In some locations, nearly all retail outlets offer trading stamps, while in other areas very few stores give stamps to their customers.

The purpose of trading stamps from the retailer's point of view is to differentiate in a market in which both products and prices are very similar between the store offering stamps and other stores. By offering something more for the same price, the merchant hopes to create a competitive advantage and thus to attract a larger share of the total market. The loyalty of his customers to his brand of stamps helps the retailer to maintain the increased volume of trade which he attracts.

A recent survey conducted by Benson and Benson, Inc. indicated that approximately 46 million households, or about 84 percent of all households in the United States, saved trading stamps in 1962. The loyalty of customers to both stamps and stores which issue them is partially attributable to the fact that the stamps are of value only in the denomination of books rather than as single stamps. The prizes for which stamps are exchanged range from small items such as linens to major household appliances and, in some cases, to automobiles and vacation trips. The number of stamps required to "pay for" each premium is dependent upon the monetary value of the prize. Because some trading stamps are saved over long periods of time to achieve major goals, it is impossible to determine exactly the extent to which people redeem the stamps given to them. Stamp companies claim redemption rates that range from 70 to 95 percent of all stamps originally issued.

New Uses. As part of the ballooning expansion in their use, trading stamps have come to be used as a promotional device in several areas other than retailing. Some businesses have begun using them as prizes in sales campaigns, or as rewards to personnel for achieving new production levels; even banks have offered stamps as rewards for soliciting new accounts or as premiums to customers who open new accounts.

Trading stamps are also being used to a small extent by suppliers of industrial materials. Since purchases from these firms nor-

mally are of considerable size, the stamps distributed with the purchases are also of considerable value. In some cases the stamps are used by the purchaser for gifts for his family, but in other cases they are used to buy equipment and supplies for the purchaser's company.

Benefit or Burden? The expansion of the use of trading stamps in sales promotion has provoked some debate as to the value of stamps to the customer and to the issuing merchant.

The stamp companies and some retail merchants argue that the stamps provide extra value to the customers in the form of premiums and that the extra volume of business attracted to the distributing merchant pays for the stamp plan. Individual stamp savers like the idea of getting something "free" and being able to save for luxury items which might not otherwise be included in the household budget.

On the other hand, the opponents of trading stamps contend that the consumer ultimately pays for the stamps in higher prices for the goods at the stores where he receives the stamps. A survey conducted by the Department of Agriculture in 1957 indicated, however, that the prices in food stores which issue stamps were only 0.6 percent above those in non-stamp food stores. (This figure may not be conclusive for present day circumstances because it is not up to date and because it was compiled for food stores in general and did not break the stores out on the basis of the degree of stamp saturation in particular markets.)

Another important criticism of trading stamps is that the cost of the stamp plan may narrow the profit margin of the distributing store to a critical level, particularly in an industry such as food retailing which traditionally operates at a very slender profit margin per dollar of sales. In a saturated market where nearly all stores offer stamps, the stamps become a defensive measure rather than a means of establishing a differential between the products and services of similar stores. At this point the stamps become an integral part of the total market rather than a factor of competitive advantage for attracting a larger share of the market to a specific store. The cost of trading stamps then can no longer be absorbed by an increased volume of business but must be either absorbed by a narrowing profit margin or passed along in the form of higher retail prices.