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Consumer Research

THE USE OF TRADING STAMPS IN FOOD STORES

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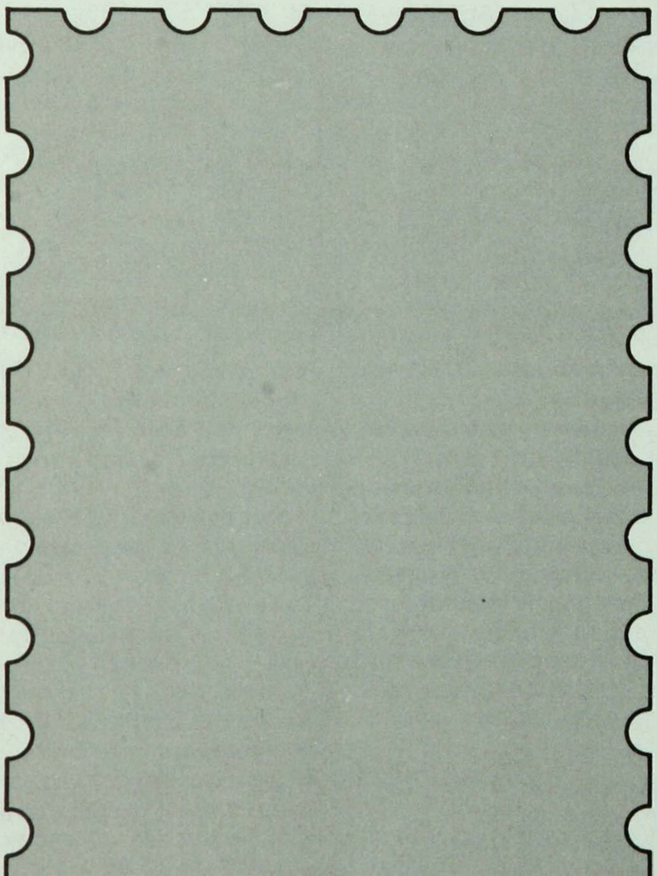

In the April 1978 issue of the *National Food Review* the use of coupons in the food marketing system was examined. This is the second in a series of articles analyzing the impact of promotional devices such as coupons and games on the consumer food bill. The recent announcement by a major food retailer that it will begin to offer trading stamps once again makes the discussion of this topic particularly timely.

Trading stamps are defined as redeemable coupons given to consumers who make purchases in retail stores. In recent years trading stamp use has shown a greater decline than the use of any other marketing promotion in the food retailing industry. Nevertheless, an estimated 10 percent of all retail sales in grocery stores will take place with trading stamps in 1978, down significantly from an estimated 50 percent a decade ago.

Food stores now account for between 80 and 90 percent of trading stamp sales. In 1976, and again in 1977 and 1978, trading stamp volume in food stores ended a downtrend from a peak reached in 1969 and began showing some increases. It is of interest, therefore, to examine the role of trading stamps in the U.S. food retailing system, and its impact on consumers and retailers.

Trading Stamp Features

All trading stamp plans have essentially the same features. Each plan is designed so that the stamps must be accumulated over time, thus encouraging continuity of consumer patronage. In most cases, stamps have a monetary value of 1 mill (one-tenth of a cent) and 1,200 to 1,500 stamps are required to fill a book, so that generally \$120-\$150 in merchandise must be purchased in order to fill a book. Books have a retail value of \$3-\$3.75 when redeemed for merchandise and in some cases, \$2-\$2.50 when redeemed for cash.

A basic feature of trading stamps' appeal to retailers is their potential ability to direct consumer purchases to a particular retail establishment. Thus, nearly all stamp plans have some sort of exclusive feature. Different *kinds* of retailers in a market tend to adopt the same stamp plan.

Different sellers of the *same* product type (food, gasoline, etc.) adopt different stamp plans.

Premium merchandise catalogues, stamp books, and advertising assistance are provided by the company issuing the stamps.

As a retailing promotional device, trading stamps differ markedly from coupons. Coupons are issued by manufacturers, although some in-ad coupons come from retailers. Trading stamps, on the other hand, are *purchased* by the retailer. Trading stamps are redeemed for a wide variety of mostly nonfood items, while coupons are generally issued for specific items. Trading stamps are issued as a percentage of dollar purchases, while coupons, other than those 'on-pack' are generally free. As shown in table 1, the use of manufacturers' coupons has risen as sharply while stamp use has been declining.

Trading Stamps and Issuing Companies

Industry sources indicate that now there are about 100 companies selling trading stamps, down significantly from the peak of about 300 companies in 1965. The bulk of volume is accounted for by a few large national and regional firms. In addition, some food retailers have their own stamp companies. Trading stamp companies derive their income from several sources:

(1) *Distribution of merchandise*: Merchandise is purchased in bulk at wholesale prices and is redeemed for stamps by consumers at retail prices.

(2) *Unredeemed stamps*: Approximately 5 percent of all trading stamps are never redeemed, a savings that accrues to the stamp company.

(3) *Management of Money* (float). Retailers pay for stamps at the time of purchase, while consumers redeem them at a much later date. The lapse, estimated to average between 8 to 10 months, allows trading stamp companies to re-invest the money during the interim.

Volume Down Sharply

As shown in table 2, total trading stamp volume fell from its peak of over \$800 million in 1969

TABLE 1.—TOTAL VALUE OF COUPONS AND TRADING STAMPS REDEEMED, SELECTED YEARS

Year	Trading Stamps[1]	Coupons[2]	Trading Stamp as a Percent of Manufacturer's Coupons
	millions of dollars		%
1971	668	191	350
1974	281	259	108
1976	273	375	73
1977(P)	295	500	59

[1] Derived by subtracting stamps not redeemed from those redeemed. [2] Does not include retailers coupons.

Source: Derived from data supplied by Incentive Marketing and A.C. Nielsen.

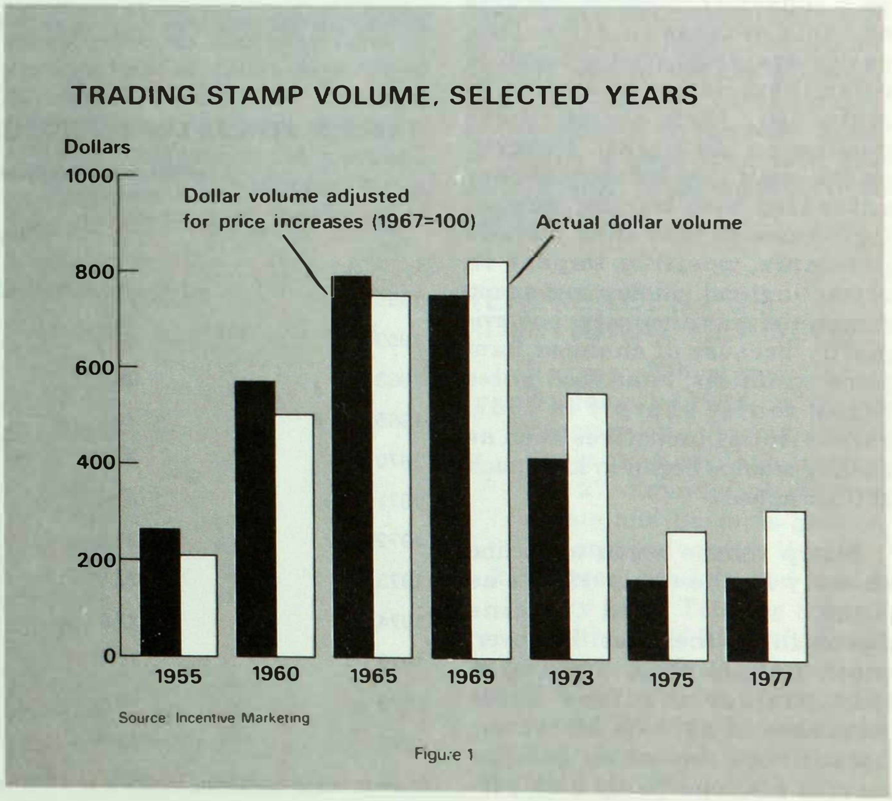

Figure 1

to about $265 million in 1975, a drop of more than 65 percent. Volume has picked up over the past 3 years but that increase was almost totally offset by inflation. Volume is still far less than half of what it was in the late sixties. Moreover, the decline in volume has taken place during years of rapid inflation, so that, when adjusted for price increases, real volume is substantially less than a fourth of what it was in the late sixties.

Does the decline in total stamp use reflect a shift in consumer preferences, a change in the competitive structure of the food retailing industry, or changes in the fundamental economic conditions prevailing in food and energy sectors, the prime markets for trading stamps? It appears that each of these may have played a part in the decline. The period of years when trading stamps became an important merchandising tool followed the growth of a great number of supermarkets in the 1950's and early 1960's. In order to attract customers during this period, retail food stores offered trading stamps as a consumer incentive. Because of their success in attracting customers, retail chains began to offer them as well, in order to maintain their competitive position in the market. However, as the retail food industry became saturated with trading stamps, they ceased to have their previous noticable, positive impact in attracting and holding customers. Almost simultaneously, but primarily because of changed farm price conditions, retail food prices began to rise sharply in 1967. Promotional incentives such as trading stamps began to lose much of their appeal.

Stamp volume began to decline sharply in the early 1970's as many retail food chains discontinued their use. However, another sharp drop, occurred in 1974 amidst the food price increases of 1973-75. Moreover, discontinued use among gasoline service stations likely also curtailed use in food stores because of the complementary nature of trading stamp savings.

Trading Stamps and Food Retailers

Like the gasoline service industry, trading stamps appear well suited for use by the food retailing industry for two essential reasons. First, there is relatively little product differentiation in the food retailing industry. Consequently, competition tends to be more price oriented. Trading stamps, however, provide a form of non-price differentiation of retail services. Second, both the gasoline service and food retailing industries are characterized by repeat business and both are

TABLE 2.—INDICES OF TRADING STAMP VOLUME, SELECTED YEARS

Year	Stamp Volume	Index of Stamp Use (1967 = 100)	CPI for All Goods & Services	Stamp Volume Adjusted for Price Increases	Index of Stamp Volume Adjusted for Price Increases (1967 = 100)
				Million Dollars	
1955	$212	28.6	80.2	$264	35.7
1960	504	68.2	88.7	568	76.5
1965	748	101.2	94.5	792	107.0
1969	821	111.1	109.8	748	101.2
1970	773	104.6	116.3	665	89.9
1971	703	95.1	121.3	580	78.4
1972	681	92.2	125.3	543	73.6
1973	547	77.8	133.1	411	55.6
1974	296	40.9	147.7	200	27.0
1975	265	35.8	161.2	164	22.1
1976	287	38.8	170.5	168	23.1
1977	310	41.9	181.5	171	22.7
1978	342	46.2	NA	NA	NA

Source: Derived From Data Supplied by Incentive Marketing

TABLE 3: PERCENT OF SUPERMARKETS USING TRADING STAMPS

Year	Food Marketing Institute Members	Total Supermarkets	
	Percent		Percent compared to peak year
1955	17.0	15.0	23
1959	67.0	58.0	92
1963	78.0	63.0	100
1965	70.0	63.0	100
1970	37.0	47.5	75
1971	31.0	37.0	58
1972	31.0	32.0	50
1973	23.0	25.0	39
1974	17.0	20.0	31
1975	12.0	15.0	23
1976	10.5	13.5	21
1977	12.0	14.5	23

Source: Food Marketing Institute and Sperry and Hutchinson Research Department dependent on high volume to maintain profit margins.

Starting in 1968, food prices began to increase at a more rapid rate than earlier in the decade. In response, supermarkets began to reduce their usage of promotional devices generally. Some even offered fewer services. In 1973-74, most gasoline service stations dropped their use of trading stamps due to the shortage of gasoline. Services were drastically reduced in that industry as well.

Today about one of every seven supermarkets offers trading stamps, which is in sharp contrast to peak year involvement when roughly two-thirds of all supermarkets offered them (table 3). In 1977, the sharp downtrend which had been occuring for over a decade was slightly reversed.

Food retailers indicate that they find trading stamps useful for the following reasons:

(1) *Increase in sales volume* is the most widely accepted retailer benefit for use of trading stamps. Given the high fixed costs of the food retailing industry, increased sales volume is one way to increase total profits. Generally, the cost of the stamp plan to food retailers is 1 to 2 percent of sales.

However, the effectiveness of trading stamps in increasing volume is contingent not only on consumer acceptance of them but also on the extent of usage in the local market. If few stores in an area offer stamps and consumers consider the stamps to be beneficial, then issuing stamps would tend to increase volume in the issuing store.

(2) *Maintaining customer loyalty* is another benefit accruing to food retailers. Exclusive franchises are generally granted to one food retailer in a given area, along with nonfood retail establishment. Customers may thus develop stamp brand loyalty which, given comparable price competition, may induce them to shop at the store giving the types of stamps they normally save.

(3) *Increasing nonfood spending* is another reason for stamp use in retail food stores. Customers who accumulate stamps tend to concentrate their purchases in stamp stores. Since many of these items are sold in nonfood-stores which do not offer stamps, food retailers find stamps an inducement for selling nonfood items which tend to have a higher markup than food items.

Concluding Thoughts

The changing nature of the food system which includes the decline in the use of trading stamps, raises questions about the value of stamps to food consumers. Have consumers been helped (through lower prices) or hurt (less of a discount) as a result of this action?

Measuring the impact of trading stamps on retail food prices is very difficult, because of the problems involved in isolating stamp costs from other marketing costs. Research in this area, which was prevalent during the peak of trading stamp activity, is virtually nonexistent today. Two studies, however, did research this issue.

In the late 1950's, USDA measured price levels in supermarkets before and after the introduction of trading stamps in 21 selected cities. Prices were compared between stores using stamps and those not using trading stamps. Food prices in stores adding trading stamps increased by about 0.6 percent in relation to prices in those not issuing stamps. The study concluded that the cost of stamps was covered in part by reduced costs (resulting from volume increases), higher prices, and a decline in profit per dollar of sales.

Another study of the effect of trading stamps on food price was done by the Bureau of Labor Statistics in 1965. That study also showed little discernible impact on retail prices. The study concluded that adjustments for the value of issued stamps produced a minimal effect on the Consumer Price Index (CPI) when accumulated over a 15 year period. Simply put, stamp volume was at too low a level to imply a need for CPI adjustment at that time. With the reduced use of trading stamps since 1965, this conclusion would appear to be valid yet today.

TABLE 4: SURVEY OF TRADING STAMP USAGE

	1976	1974	1967
U.S. Households Survey Stamps (millions)	24	37	49
Percent of total U.S. Households	34	54	84
Women Participating (percent)	38	59	86
Men Participating (percent)	30	53	76
City Size			
Urban (percent)	33	52	85
Suburban (percent)	34	62	85
Rural (percent)	43	62	82
Farm (percent)	45	59	75
Age			
Under 35 (percent)	34	51	84
35 - 44 (percent)	25	54	86
45 - 54 (percent)	37	52	78
55 and over (percent)	39	64	85

Source: Sperry and Hutchinson Company

REFERENCES FOR ADDITIONAL READING

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3. U.S. Department of Agriculture, 'Trading Stamps and their Impact on Food Prices,' MRR No. 295, 1958.