



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Consumerism: The Issue of Dual Pricing

Dual Pricing — An Industry Responsibility?

Food 70's

Uses and supports the dual pricing concepts; but raises questions about its effectiveness and seeks other ways to provide the consumer with information to aid in buying decisions.

Paul G. Nelson
Chief Executive Officer
Greenbelt Consumer Service, Inc.
Silver Spring, Maryland

● In answer to the question, "Is dual pricing an industry responsibility?", I am not prepared to say categorically "yes" or "no"; I would say "yes", within the context of certain broad definitions of the subject.

Let me first identify myself so that you can evaluate my views in some perspective. I am the resident general manager and chief executive officer of Greenbelt Consumer Services, Inc., the largest urban retail consumer cooperative in the United States. We operate 22 supermarkets; 10 auto service stations; a wholesale tire warehouse; 7 Scandinavian furniture stores; 5 pharmacies, and a mail order pharmacy. The supermarkets accounted for about 80% of our \$50 million sales volume last year and our operating units are situated mostly in the Washington metropolitan area of Maryland and Virginia.

Our supermarkets are operated in a conventional manner. We pursue a discount pricing policy that is fully competitive with any of the supermarket chains in our area.

Management makes a conscientious effort to be responsive to expressed consumer's needs and wishes within the framework of sound business practice. Our 34,000 stockholders and board of directors are keenly aware of consumers' interests and actively support consumer groups and government legislative efforts. One of our board members is chairman of the Virginia Citizens Consumer Council and another is on the board of the Maryland

Consumers Association. We took an active part in securing a more adequate meat inspection law in the state of Maryland. Many of our members are involved in the Consumers Federation of America.

I define "dual pricing" as a system of informing the consumer of the price per unit measure (ounce, pound, pint, or quart, etc.,) of a commodity, in addition to the price of the total package.

There are three basic methods (or modifications of them) currently being used to implement dual pricing:

1. An electronic print-out price tag which is displayed on the shelf tag moulding under each individual product item. This system is usually available only to chain stores that use computers in their accounting operation. Its start-up cost is more expensive than the other two systems.
2. Lists of similar products showing comparative package and unit prices. These are displayed prominently in appropriate sections of the store. These lists can be printed or drawn by hand at various costs, depending upon the design, complexity, and extent of the lists.
3. A simple plastic calculator wheel which is attached to each shopping cart readily available for use by the customer in calculating prices if she is so inclined. This is the least expensive system because it requires no continuing maintenance cost by the retailer. However, it has not been

favorably accepted by many customers.

We at Consumers Supermarkets were among the first to experiment with dual pricing. In the Spring of 1968, we programmed our wholesaler's computer to print out dual priced tags on about 2,500 grocery items. They were applied to the shelves of a more limited number of items in four of our supermarkets and extensively throughout the fifth test store. We did not promote or publicize this program but listened for customers' comments and reactions. A few customers noticed the labels in one store and when questioned, said they thought it was a good idea. However, no one was observed actively using them as a guide for making their shopping selections. The other four managers reported no customer interest in the program. Since our customers didn't seem to feel there was any intrinsic value in dual pricing, we abandoned the program, feeling that it was an idea "ahead of its time". Undoubtedly we could have generated customer enthusiasm for it if we had promoted and publicized it, but we concluded it wouldn't increase sales sufficiently to compensate for the cost which we estimated would be about \$30,000 per year for our 20 supermarkets.

In the Spring of 1970 we experimented extensively in one of our biggest supermarkets with dual pricing on about 800 items, this time using a series of cards which listed comparable items. The cards were posted throughout the store at point of sale of the products. An enthusiastic committee of volunteers conducted the experiment, explained the program to customers, and extracted comments from them. We did not publicize the project in our advertising or with any additional in-store advertising.

An analysis of this three-month experiment showed that:

1. Dual pricing did not increase our customer count or increase overall grocery sales;
2. Dual pricing did not appreciably increase the sales of 38 selected "best buy" products. (388 cases vs. 365 cases -- a 6% increase.)
3. Relatively few customers used the dual pricing information. (This store serves upper middle-income customers.)

However, in spite of these findings which indicated that the economics of the situation could not justify any expenditure on dual pricing, we decided to institute a dual pricing system in all 20 of our metropolitan area supermarkets. We did this on the grounds that any pressures to prompt

the manufacturers to standardize their packaging are noteworthy and we are willing to support the concept of dual pricing to the extent that the cost of our efforts does not become an unreasonable burden on our limited resources. Our dual pricing is applied to 1,500 items in the most important categories.

We announced our dual pricing system which we call "Best Buy Pricing", in a press conference at the Statler Hilton Hotel in Washington on August 26, which was attended by Senator Frank Moss and a representative from Mrs. Virginia Knauer's office and members of the news media.

We believe our copyrighted system is the most practical for the consumer to use. It enables her to make instant cost comparisons at point of purchase. Our objective is to give her the tools with which to make good buying decisions. We do not pretend to tell her what to buy. Only she knows the size of her family, their style of living, their budget, their brand preferences and idiosyncrasies. We don't have much patience with "totalitarian liberals".

We have budgeted \$15,000 direct expense for the first year for this program. This does not include any necessary additional payroll in the stores.

Ardent supporters of dual pricing sometimes ascribe more attributes to the system than exist. Dual pricing is no panacea. It is limited to informing about quantity cost. It does not contribute anything to quality and value considerations when making comparisons.

There is a wide range of opinion on what costs should be anticipated in implementing a dual pricing system. A&P Chairman Melvin W. Alldredge is quoted as saying, "the cost of dual pricing would be 'frightening'." The New York State Food Merchants Association estimates it will cost New York food retailers \$50 million to dual price on a storewide basis. This is based on one per cent of its estimate of \$5 billion for total store sales for the area.* The New York City Department of Consumer Affairs estimates the cost of stocking and pricing to be between 0.75 and 1.8 per cent of sales.* This was based on a

*Reported by Supermarket News, Oct 6, 1969

survey of 12 of the city's supermarkets. My opinion is that it would be pointless to extend dual pricing to all food categories, such as gourmet-type foods for example, and on a limited basis the cost of dual pricing should be somewhat less than one per cent of sales. But, everyone recognizes that dual pricing does involve some added cost and this must ultimately be paid for by the consumer in the prices she pays for her purchases. The question is, "is dual pricing worth the cost?".

A primary motivation of dual pricing was to especially benefit consumers in low-income communities where exploitation is reported to be occurring in some areas. However, tests have clearly shown that there is virtually no interest in dual pricing by poorly educated low-income customers. There is more support for dual pricing from better educated, higher income customers.

Manufacturers understandably resist what they consider to be bureaucratic interference when government agencies propose that they standardize the packaging of their products. However, I believe much can be done in this area, at a modest additional cost, compared to the benefits to be derived.

I recently visited Western Canada and was surprised to learn that the government has required standard weights in canned products for a number of years. The system appears to create no difficulties at the retail store level. The government made a change in the weight specifications recently which intrigued me. They changed can contents from 15 and 20 ounces to 14 and 19 ounces. I'd be interested in knowing their rationale for this decision.

You are no doubt aware of the widespread involvement in various degrees of dual pricing by other retailers throughout the United States such as the Hyde Park Co-op in Chicago, 8 Co-op supermarkets in the San Francisco Bay area, 9 Co-op supermarkets in New York City, 23 Benner Tea Stores in Iowa, Illinois, and Missouri, 11 Star Markets in Rhode Island, 6 Kroger stores in Toledo, 4 Safeway stores in Washington, D. C., 38 Kohl's stores in and around Milwaukee, and 258 Jewel Tea stores in the Chicago area.

The most recent and definitive analysis so far was issued early this month by

Jewel Food Stores.* Here are some of their findings:

-- After 7 months' experience with dual pricing, Jewel found 62.9% of its customers acknowledged an awareness of the program, but less than 6% made buying decisions based on dual pricing.

-- Jewel now has dual pricing on 3,027 items.

-- Measurement of customers actual use of its dual pricing system to change shopping decisions, along with studies of product movement "would seem to indicate that it is not an essential need and that its cost could not be justified on that basis".

-- There was no indication of movement to larger sizes; movement was to smaller sizes and there was no measurable evidence of movement to private labels.

--Cost of the program as presently implemented is estimated to be approximately \$1,000 per store annually. This includes labor, for a total for Jewel Food Stores in excess of \$250,000, but this cost does not include estimates for computer time, management or overhead costs of the program.

--Statistically, there appears to be a slight positive correlation between higher income and/or education and increased familiarity. Age appeared to have little or no bearing.

"Is dual pricing an industry responsibility?" My personal conclusion is that it is industry's responsibility to deal honestly with the public and to provide the consumer with adequate information so that she can make intelligent shopping decisions. I don't mean to imply by this statement that dual pricing is therefore the only answer to the problem of adequately informing Mrs. Consumer of the comparative costs of products. I believe dual pricing is not the ultimate answer. It is a stopgap measure at best.

It is an inefficient and costly procedure as presently conceived and since the additional cost must be borne by the consumer, it behooves us to seek a different approach to the problem. I submit that if the manufacturers would make it standard practice to pack their

*Reported by Supermarket News - Oct. 12, 1970

products in units of simple division or multiples of a pound, there would be no need for any dual pricing. Buyers, who are interested in comparing costs, would be perfectly capable of doing the simple divisions or multiples of a pound, there would be no need for any dual pricing. Buyers, who are interested in comparing costs, would be perfectly capable of doing the simple mental arithmetic required in that situation to make good buying decisions. I guess what I'm saying is that giving the consumer the kind of information that dual pricing is designed to provide is the food industry's responsibility but at the manufacturers' level, not at the retailers' level, and until the manufacturers pack in such standard weights and measures, dual pricing by retailers may provide a stopgap solution to the problem. ●

EDITOR'S NOTE:

The discussion following the papers brought forth these issues:

1. The problem of who should implement the dual pricing program -- retailer or manufacturer.
2. Is dual pricing the final answer to consumer buying information?
3. The question of how effectively the consumer used dual pricing information.