SUMMARY OF PAMPHLET, "CONSUMERS LOOK AT TRADING STAMPS"

Eugene R. Beem, Associate Professor of Economics
University of California

Trading stamps have wide acceptance among consumers. About three of every five families are saving stamps which they collect from retailers accounting for about ten per cent of all retail sales. Some consumers gain psychological satisfactions from saving stamps. Many view stamps as a method of "painless saving." A typical stamp plan enables consumers to earn a premium worth about $2.50, based upon department store prices, for every $100 of regular purchases on which stamps are given.

Nevertheless, surveys show that stamps are very low in relative appeal when compared to basic merchandising attractions such as prices, convenience of location, assortment of products, and store appearance. Stamps are a powerful promotion for retailers only among consumers who can see no better basis for choosing a store. A retailer such as a super market or a service station is attracted to stamps because they give his store something distinctive which competitors don't have. If the same stamp is given also by a large number of non-competing retailers in the same trading area, the plan will be very difficult to "neutralize," even if competitors introduce stamps of their own.

All of the evidence indicates that stamp plans are not strong enough in their attraction to consumers to enable retailers to raise prices to offset stamp costs. In fact stamps, by stirring up competition, appear to have retarded food store price increases in many cities of heavy stamp saturation. Food price increases since 1954 have been greatest in cities where no chains or super markets give stamps. They have been least in cities with the heaviest concentration of stamps. This doesn't mean, paradoxically, that consumers aren't paying for stamps. It means rather that they are paying for stamps rather than paying for something else. The "something else" in successful stamp plans is often idle capacity. Food stores need 15 to 20% sales increase to reduce their average overhead costs by enough to offset the cost of 1.5% to 2.0% of sales which stamps entail. Other retailers, with higher gross profit margins need even less increase. For the total food retailing industry, the major offset to stamp costs has been a decline in industry profits. Total industry profits have fallen since 1954 by more than enough to offset the entire industry expenditure for stamps.

On the other hand stamps do complicate the task of intelligent shopping, for different stamp plans vary considerably in their redemption values. And premiums can be earned only by regular patronage of particular stores. These factors help to explain why stamps do not have stronger appeal and why many retailers prefer to use non-stamp attractions.

If laws are passed to outlaw stamps there is little likelihood that lower prices would follow. Competition would be lessened and would probably be diverted into other non-price forms -- non-stamp giveaways, fancier stores, perhaps more stores. This has, at least, been the tendency in the cities without stamps.