NOTES

PREMIUMS IN RETAIL TRADE

Within the last year or two the "premium craze," like a moral epidemic, has spread all over the country. Scarcely a middle-class or wage-worker's family may be found, at least east of the Mississippi, where some kind of coupons are not saved and some kind of a free prize not expected. While this passion of collecting coupons or certificates, whose actual value translated into United States money equivalents is often infinitesimally small, has been a legitimate and grateful object of humor and satire, the fact has generally been overlooked that the very magnitude of the movement has made the premium a phenomenon economically important and interesting, and deserving of a careful analysis. Being a feature of retail trade exclusively, the premium or prize once more reminds us of the significant changes in the organization of the retail trade which are taking place at the present time, and which have been studied but little by the economic scholar.

The purpose of the premium is advertisement and publicity. Its aim is not only to gain, but to retain, the purchaser. It is therefore the essential feature of the premium that it be given for a series of purchases, and not for one. Yet exceptions from this rule are occasionally met with. Thus within certain districts of the New York East Side a very peculiar method of dealing in coffee and tea grew up some three or four years ago, which did not persist very long, but for the time being must have been a veritable Klondyke to the enterprising dealers. With every purchase of one pound of coffee a "free" prize was given — some ware or household utensil, whose value was usually declared to be greater than the total price paid for the pound of tea and the prize. The prices paid for the tea and coffee were naturally considerably higher than the prices for similar commodities anywhere in the country. In other words, a peculiar phenomenon of a combined price for two articles absolutely unrelated to each other developed, and the purchase of cheap and often unnecessary goods simultaneously with the goods desired was the practical result of this peculiar economic aberration.

Such cases are only exceptional, however. Whatever the technical aspects of the method employed in distribution of the prizes, the real aim is to preserve and to compensate the "regular customer," to offer him an additional inducement over and above the terms granted to the occasional customer, and thus to guarantee the market. Economically, little can be said against this motive in principle. The large purchaser always commands better terms than the petty purchaser, and the permanent purchaser may be considered the larger purchaser.

On the other hand, the premium is one of the many advertising schemes and methods of which such an enormous variety has sprung up within the last decade. A well-known soap-manufacturing firm in Buffalo, which was among the pioneers of the premium idea, openly acknowledges that the premium system was selected as a cheaper substitute for expensive advertising.

Advertising is done either by the manufacturer or by the retail dealer. There can hardly be any question as to the fact that the real burden of advertising falls upon the consumer, while the greatest profit is derived by the advertising medium, the newspaper. A similar development may be noticed in the premium system.

The various methods and systems of premium- or prize-giving must be carefully classified. Thus we have, on the one hand, the manufacturer's premium. This is explained by the enormous development in the use of "trade-mark" goods. In the olden days the retail dealer performed the important function of selection of goods.[1] Then the manufacturer depended upon the retail dealer, and was obliged to offer him the most advantageous terms. This system can hardly be regarded a rational one, as the selection of goods is done by persons not interested in the intrinsic quality of goods. Formally at least, therefore, the development of trade in trade-mark goods must be considered as

[1] As was pointed out in a very interesting manner by Professor Edward Jones in the *Annals of the American Academy,* January, 1905.

a change for the better. The consumer gets the particular product he knows and trusts. It is not a simple matter, however, for a new product to gain that confidence and popularity. Enormous outlays for newspaper and other forms of advertising must be made, if a new preparation is to be brought before the American public, and popularity can be kept up only by keeping up the advertising. The cost of this advertising often forms a heavy burden upon the price of the product. If some prepared cereal is retailed at fifteen cents a box, the largest part of the price undoubtedly represents the cost of advertising. The substituting of some other method for the wasteful system of advertising is therefore advantageous and desirable, both for the producer and the consumer.

The premium system undoubtedly represents such an effort. How satisfactory it is, is another question, an answer to which will be attempted presently. The varied and interesting technical details of the system deserve short mention. The most popular method is the inclosure of coupons, and the exchange of a specified number of coupons for a certain article supposedly useful or ornamental, whether a pair of gilt cuff buttons for fifteen coupons, or a piano for forty thousand. Some tobacco factories use a part of the cigarette box for the same purpose. Again it may be the metal top of the tin box or the can of vegetables or preserved fruits. The inclosure of the "free" premium itself, as the cup, saucer, or plate, within the package, is certainly an original, but exceptional, method made use of by one firm manufacturing cereals. Here the phenomenon of a combined price for two commodities, entirely different, presents itself to baffle the most careful inquiry into the nature of value. This latter method comes dangerously near the gambling method of putting into different packages coupons with different letters, and allowing a premium only when a certain word has been spelled by means of these coupons. Putting a one-dollar bill into one of every hundred boxes, and letting the consumer take his chances, was a procedure that clearly came within the provisions of the criminal code, and was very wisely abolished.

There exists still another plan which, in principle at least, widely differs from all those mentioned. This is the system of granting prizes in return for coupons plus some cash. The producer offers the consumer various goods for prices claimed to be much below the actual value of the goods. It is very questionable, however, whether these supposedly nominal prices are at all below the wholesale price paid by premium-granting firms. The premium here consists in the service of making a purchase for the coupon-holder, without charging him the commission, and in granting him the privilege of a wholesale price. Yet in its actual value this premium is probably worth more to the consumer than the totally free premium consisting of some useless piece of tasteless china.

That any and all of these schemes called forth violent objections from the competitors who had not adopted this method of advertising, was to be expected. Recently, however, the voice of the retail dealers in these goods has been heard in support of these protests. It is not evident, on the face of it, why the retail grocery-dealers should find the system of premiums objectionable, yet inquiries in that direction will bring out the interesting fact that premium goods yield a lower rate of profit to the retailer, and, more than that, that all popular trade-mark goods are poor profit-makers for the retailer, and the more popular they are, the less profitable is their handling in the store, for the more secure is the demand, the more stringent the condition of sale to the retailer. And what is true of trade-mark goods in general is still more true of the premium goods. The retailer is forced to contribute his share to the cost of the premium. The retailer fights against this tax, as well as against the general tendency of the manufacturer to reduce the retailer's importance (and incidentally profits) in the process of distribution.

These considerations explain why the New York Merchants' Association, the National Association of Retail Grocers, and similar bodies have started such a bitter warfare against coupons and premiums. The leaders of these organizations point out, with a great deal of conviction, that the premiums are a parasite on retail trade; that they force the illusion upon the consumer of "getting something for nothing," while in reality he pays more than the premium is actually worth. The popularity of premiums is built upon a speculative basis, which can be but harmful in the everyday transaction of purchase of food supplies. The system influences the public to buy larger quantities of supplies than are actually necessary, in return for which the home of the consumer is filled to overflowing with ugly and useless articles.

A great deal of which is true, of course; yet this touching solicitude of the retail grocer about the consumer's pocket may call forth some suspicion as to its sincerity. The limited influence of these warnings upon the premium-mad public has been a matter of record. If the premium-giving concerns have yielded considerably under the pressure from the grocers, it was a yielding to a material force, and not moral persuasion, and it was not done without some opposition. In this connection, the extensive correspondence between the National Association of Retail Grocers and a large cereal-manufacturing concern is interesting. In reply to a request from the Grocers' Association to discontinue the premium system, the manufacturers said:

> This is a premium age.
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> It is estimated that three hundred different articles handled by the grocery trade have some form of premium to the retailer or consumer attached to them.
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> With the increased cost of raw materials of every kind, there is less profit in the manufacture of cereal goods today than in the past. The cost of the ordinary methods of advertising in newspapers, magazines, bill-boards, etc., has increased enormously in the past few years; consequently manufacturers of cereals, in seeking to market their goods, naturally turn to premiums as being the least expensive and most effective method of creating a trade for their products.
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> We were from the first opposed to premiums of any kind in connection with the sale of our goods. It was only after we became convinced that we were in serious danger of losing the leading position that we have always occupied in the cereal trade that we, much against our wishes, decided that it was absolutely necessary for us to offer premiums or inducements to retailers and consumers on similar lines to those already being offered by our competitors.

After quoting from circulars of other cereal firms, to show how widespread the system of premiums is, the letter concludes:

> We could quote you numerous other instances, similar to the above, showing that this means of pushing the sale of goods has been adopted by cereal manufacturers and wholesale grocers generally, as well as manufacturers of other lines of goods.
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> We are satisfied that the above facts will convince you we are not the originators of the premium plan, but that we reluctantly adopted it for self-protection. Under these circumstances we do not see how we singly and alone can abandon the plan. With a view of meeting your ideas as nearly as possible, and at the same time protecting our business from the inroads of our competitors, we make the following proposition:
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> We will agree to stop the use of premiums of any kind, sort, or description to jobbers, retailers, clerks, or consumers, in connection with the sale of our goods on a date to be fixed in the future (this includes all checks, coupons, certificates, bonds, missing-letter schemes, and printed offers of any nature, either to be placed inside or outside of the package or made part of the labels), provided all of the manufacturers, distributors, and wholesale dealers in cereal goods in the United States do likewise.

As a result of the agitation and negotiation, some understanding was arrived at, and the most objectionable features of the premium system were abolished. Yet the letter makes clear that, as an important method of competition, the system in its entirety has come to stay, and will vanish only with competition itself. And competition, according to the firm conviction of " the man in the street," must be advantageous to the public. And, of course, it is. Witness the cracked china and gaudy statuettes in the homes of the public.

The evident uselessness and ugliness of most premiums have not failed to become evident to many. It was felt that an attractive and useful premium might prove a much better drawing-card. And so, notwithstanding all the criticism, a new concern was formed very recently, with magnificent offices in one of the representative skyscrapers of lower Broadway, which has particularly aroused the ire of the retail grocers. The prospectus of this concern says:

> The growth of the premium idea has steadily developed, so that today scarcely a single one of the "necessaries of life" is sold without carrying, either through its wrapper, trade-mark, label, box-front, or other token, some sort of premium value. The great objection thus far to any of these individual premium plans is that the average consumer does not purchase enough of any

one commodity to entitle her to a premium of any considerable value. As a consequence the public has been deluged with cheap and trashy premiums.

A new premium plan has been devised by the leading manufacturers of the United States whereby the purchaser of soap, cereals, condensed milk, canned goods, tea, coffee, cocoa, soups, extracts, baked beans, figs, shoe polish, catsup, salad dressing, olive oil, smoking tobacco, cigars, cigarettes, and over three hundred different brands of consumable commodities, may secure, instead of the inferior clap-trap premiums, handsome and substantial premiums through the combined efforts of all the prominent manufacturers. To make clear the difference between the individual and the associated plans, we will assume that Mrs. A. has purchased and saved the labels from one hundred tins of condensed milk, fifty cakes of soap, forty pounds of coffee, ten jars of extract of beef, etc. Mr. A. has also saved the tags from a six months' supply of tobacco or coupons from his cigars or cigarettes. The very best that this lady could secure from the milk-manufacturer would be a cheap chromo, from the soap-maker a gilt hat-pin, and from the coffee-packer a set of doilies, etc. Her husband also learns that, after smoking himself nearly to death, he has earned a pipe or a pair of cheap cuff buttons.

The plan of this association, embracing the prominent manufacturers of the country, with an aggregate capital exceeding $20,000,000, is to enable the purchaser to pool his or her premium coupons and possess something that will fill a long-felt want in the home.

If your grocer does not keep all the goods enumerated in this catalogue, he can, and undoubtedly will, get them for you, as each one is a standard, well-known product. By purchasing the brands of the manufacturers identified with this magnificent premium plan, and exchanging the wrappers, trademarks, labels, etc. (according to directions), you are enabled through this plan of household economy to furnish your entire home absolutely free.

This scheme, explained with such literary talent in this circular, deserves special attention, because it represents a transition stage from the manufacturer's premium to the dealer's premium, being not only a premium for buying a certain goods, but, indirectly at least, a premium for buying at a certain place. The effect of this scheme would be to concentrate the purchases at stores supplied only with goods of firms subscribing to this scheme. Presumably no two competing firms would join this "union," as the effect of premiums as weapons of competition would be destroyed by the coupons of both being given an equal value.

If the interests of the manufacturers are at least partially taken into consideration in the last scheme, they vanish altogether in the system of retail-store premiums, which are based upon entirely different economic principles. The manufacturer of "Strength, the Health Food," or "The Turkish Beauties, the Best Cigarette," wants you to eat only "Strength" or to smoke only the "Beauties." But disregarding for the moment the various rates of profit derived from various goods, it is immaterial to the retail trader what you consume, provided you buy it of him; and it is the dealer's effort to fix the place of purchase, rather than the kind of goods consumed. In either case the purpose is the establishment of a habit. The technical aspects of the dealer's premium were very simple in the beginning. Cards bearing the designation of the amount of purchase, either in print or by punching, or the neat checks turned out by the automatic cash registers, were to be saved by the consumer until a certain sum of purchases was reached, which granted the right of a premium. These dealers' premiums first grew up in the small groceries, then extended to various other retail stores. Here again the same economic principle of remunerating the permanent customer was evident. But in practice this remuneration took the form of cheap and useless articles, namely bric-à-brac, the very production of which in such enormous quantities is an enigma. The overcrowding of the American city, not too spacious as it is, with these ugly things can hardly be considered an advantage, except for the bric-à-brac manufacturers, for whose products an enormous demand must have developed suddenly. Yet occasionally a much more sensible form of premiums may be met with, as, for instance, the right for a considerable number of "shines" with each pair of shoes. The writer knows of a shoe-store where a pair of shoes is given free with the purchase of ten pairs. Here the premium amounts to a cash reduction in price by 10 per cent. — but only to the permanent purchaser. An interesting development of these dealers' premiums has been the extension of the epidemic over the male sex, mainly through the efforts of a well-known system of chain-stores dealing in tobacco products.

This is an era of consolidation; also of substitution. And so both forces have started to play in the domain of the premiums, and the result has been the much-discussed "trading-stamp." This device was heralded as the greatest invention of the competitive principle. And perhaps it was that for some time. It is the more interesting, therefore, to observe how this method has brought the whole system of premiums *ad absurdum,* and, like many other methods of extreme competition, has destroyed its own usefulness to anybody, and, while causing great losses to many, was profitable to a very few middlemen.

In principle, the trading-stamp approaches the plan of pooling manufacturers' premiums, which has been described above, and tries to get at the same results as the dealers' premiums. Saith the trading-stamp man: "What a single firm cannot do must be accomplished by co-operative efforts of many forms. You sell tea, or perhaps tobacco. The annual purchases of the average family at your store cannot be very considerable, and you cannot, therefore, offer any but the cheapest premiums. But if you enter into an agreement with the dealer in shoes, dry goods, drugs, lamps, etc., etc. — i. e., with a whole circle of retail stores, where most of the purchases of the family are done — you can, all combined, offer a premium that will actually be worth while. You are all in different lines of trade, and do not compete with each other; therefore you may co-operate. But, of course, the co-operation requires a special mechanism, which we will furnish for a small consideration."

Thus, alluringly, spoke the trading-stamp man. The stamp is the mechanism. The originator of this scheme sells the stamps to the storekeepers, who distribute the stamps to the purchasers free, and, when a certain number of stamps has accumulated, the trading-stamp concern gives a costly premium in return for the stamps. The unit for a stamp has been put tentatively at a ten-cent purchase, with a premium of one thousand stamps, or a total purchase of one hundred dollars.

The plan proved attractive to the retailers. In a large city, like New York, a considerable portion of the retail trade goes to the small shops in the neighborhood. The small local retail dealer counts only upon the local trade, and struggles only against the local competitor. Here an excellent method of competition was offered, and a number of subscribers to the new scheme grew rapidly. In entering into the contract, the trading-stamp firm usually agreed not to furnish these stamps to any other dealer within a certain district, and thus a number of dealers gained a considerable advantage over their competitors.

The writer had the opportunity to observe the growth of the trading-stamp mania in New York from its very incipiency, and saw its phenomenal success as well as its final fiasco. In the beginning the advantage to the enterprising dealer was not a small one. But neither the dealer nor the trading-stamp schemer foresaw the results which were inevitable. Competition arose in the very method of competition. The trading-stamp idea could not be patented. The dealers who were left on the outside had to imitate as a matter of self-defense. Besides, the high profits of the trading-stamp man could not help attracting attention. If the green trading-stamps proved a howling success, why not red, blue, yellow, and violet ones? A number of paralleled systems sprung up. Under the influence of the demands of the stamp-mad public, no dealer could afford to go without premiums. As a final result, some *status quo* was established, and the retail dealers, on the whole, found themselves with the same circle of purchasers, but with an additional expense for stamps forced upon them. The stamps lost their dynamic force — the acquisition of custom — as they increased the total purchases but little, but became necessary for the retention even of the established trade.

Yet this *status quo* was only approximate. In reality, they have rather injured than helped the mass of retail dealers, judging from New York experiences at least. The purchasing power of the consumer only partly reaches the neighborhood store. A considerable (and growing) share goes to the gigantic central department store. To a certain extent the trading-stamp was intended to revert a certain portion of this share back to the neighborhood store. The trading-stamp scheme did not seem to become a big, respectable department store. But if the trading-stamp was aimed at the department store, the latter was not too slow to perceive it. And when the department store decided to accept the challenge, it found itself in a position to strike the small stores with their own weapons. In the hands of the department-store man, the trading stamp became a very dangerous weapon. The stamps becoming an object of trade, it could very naturally be sold at a considerably reduced price to a purchaser of millions of these stamps. A department store with gross sales amounting to many millions a year was able to distribute tens of millions of stamps annually. This reduced price was in itself an advantage, but when the large department store was enabled to give two stamps for each ten-cent purchase, while the small store could give but one, the small dealers had their eyes opened and saw what dupes they were when they permitted themselves to be convinced to boom the stamp man's business, for in the end the trading-stamp helped some large department store and injured the small dealer. That the trading-stamp man derived the greatest benefit from the transaction was to be expected. That was the rent of enterprise, of course. His profit was made by the difference in the price of one thousand stamps and the cost of the premium, minus the cost of running and advertising his business, of course. What this difference is it is impossible to tell, as it is impossible to guess at the value of the premium. The writer of these lines was, for a time at least, a victim of this craze, and has quite a respectable piece of cut glass to show for it. The retail value of this premium seems to be about three or four dollars, and it was received for one book only (i. e., one thousand stamps, which means a total purchase of $100). Judging from this example, the trading-stamp man should have received about four or five dollars for these one thousand stamps, and the stamps would represent one-half cent on a ten-cent purchase or 5 per cent. discount. And, as a matter of fact, whether true or not (and we think not), that was the value which the public thought the stamps actually had. Yet if the lavishness with which these stamps have been distributed is taken into consideration, and that at least one department store doubled the number of stamps once or twice each week, it certainly must not be supposed that any system could or would introduce a 10 per cent. discount on each and every purchase. The truth of the matter is that, in getting his valuable cut-glass premium very early in the history of the trading-stamp idea, the writer was "let in on the ground floor," as it were, and that the actual value of the stamps was much lower, as is claimed by some—only one-tenth of a cent—in which case it represents a discount of 1 per cent. only. The value of the premium was rapidly reduced. The enormous quantity of stamps lost or left unused by the impatient consumers was so much additional pure profit to the "man with an idea."

In view of the economic effects of the trading-stamp movement, which cost the dealer much more than they were worth to the consumer, and brought the former nothing but the cost, one is not surprised to find the commercial classes soon starting a warfare against this spirit, whom they could not get back into the bottle again.

As the retail merchants were many, and the trading-stamp men few, no special difficulty was met in the effort to pass a law regulating trading stamps and premiums. Chap. 657 of the Laws of 1904, New York, sec. 1, provides that trading-stamps must have legibly printed upon their face their redeemable value in lawful money; sec. 2 provides that the holder of a trading-stamp shall be entitled to receive therefore from the company issuing the same its redeemable value either in cash or merchandise at the option of the holder; sec. 3 provides that the trading-stamp companies must redeem stamps if offered in lots of five cents worth; sec. 4 provides for enforcing the law; and sec. 5 exempts certain coupons based upon a dual and not a tripartite contract (i. e., the old-style coupon both given and redeemed by the retail dealer himself).

The purpose of the law must be commended. It aims at destroying the speculative element of the trading-stamps, at preventing deceptions, while preserving the wholesome element of discount off the price. If the value of the stamp be known, and especially if the stamp be made redeemable in United States money at the option of the holder, the trading-stamp idea, which is based upon the speculative tendency of the public, would be reduced to naught. The stamp would simply mean so much reduction off the price, and both the dealer and the purchaser would be in a position to know exactly how much reduction is given. After the value of the stamps in cold cash was established, no retail dealer would think of paying more than that redemption price for it, and so the business of the trading-stamp man would vanish into air. All this *would* happen if chap. 657 would have any legal force. But the law has been declared unconstitutional by Judge Nash, who declared "that it is the settled law of the state that it is not within the power of the legislature to suppress or regulate the issuing or sale of trading-stamps."

Thus, the matter is settled, so far as the legal aspects of it are concerned. And the trading-stamp idea is still spreading, though it is rapidly approaching the moment of total discredit in the eyes of the public. If it has come to the point where an evening paper, sold for half of one cent to the street urchins, gives with each copy two trading-stamps (it matters not of what fancy color), then the value of a stamp cannot be too high. But in this or that form the system of premium-giving remains and will remain, as long as the retail trade will present the same features of high rates of profit and cut-throat competition. One cannot help thinking, with Judge Nash, that the trading-stamp is as legitimate a method of competition as many other less ingenious ones. And if the competitors are suffering under the burden of this method of competition, while advantages derived by the consumer are small, is this then not the inevitable result of most competitive methods? If the system of premiums and prizes has made the average American alive to the faulty organization of retail trade, which yields an enormous rate of profit and yet often fails to furnish the small dealer with the means for even a modest existence, the work of the premiums will not have been in vain. This knowledge may give the stimulus toward a better system of trade and distribution, where the advantages and profits of retail trade will remain in the hands of the consumers; not in the shape of quasi-free premiums and prizes, but in the shape of perceptible reduction in the retail prices.

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