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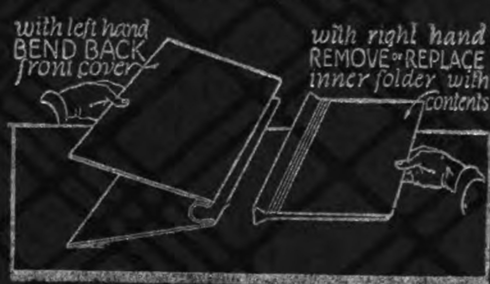

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DISCOUNT CENTERS - A CHALLENGE TO CHANGE

by

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MAJOR PAPER

Submitted to the College of Business and Public Service
of Michigan State University of Agriculture and
Applied Science in partial fulfillment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

Department of Marketing and Transportation Administration

Programs in Food Marketing Management

1961

Approved: ______________________________ Director

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ACKNOWLEDGMENTS

The author wishes to express his appreciation to the Grocery Industry which made possible four years of college through the availability of part-time employment. The author is particularly grateful to the National Tea Company for making possible this year of study at Michigan State University.

Grateful appreciation is extended to Dr. Edward M. Barnet, Director of Programs in Food Marketing Management at Michigan State University for his understanding, guidance, and encouragement during this year.

CHAPTER I

INTRODUCTION

Among the Roman Gods was a wise and powerful one called Janus. His statue had two faces, one looking backward into the city and the past and the other looking out of the city toward the future. The gates of his temple were closed only in times of universal peace --- and in all of the history of the Republic and the Empire, this happened only rarely.

Not unlike Janus, Retailing, and in particular, the Supermarket Industry, must have two faces, one examining the past and one looking toward the future, while still continuing to exist during the present. And like the temple of Janus, the gates to the temple of Retailing and the Supermarket Industry will rarely, if ever, be closed.

The Supermarket Industry, since its inception, has been in a constant state of conflict and turmoil. In the beginning it had to overcome the prejudiced feelings of the public. It has been constantly engaged in the battle of reducing prices, while maintaining profits, due to the intense competition resulting from the growth and efficiency of competitors within the industry. It is presently involved in the problem of diminishing profits.

It was the supermarket, as a new type of retailer, that entered a "matured" market in the 'thirties as a low-status, low-margin, high-turnover, low-price operator. Department stores, by the same token, entered retailing as competitors to the small retailer. Gradually, as is evident in the Supermarket field, and the Department Store field, they evolved into establishments with more elaborate facilities, higher investments, and higher operating costs.

In looking to the future, it is evident that the Supermarkets and Department Stores are at that stage of maturity where new low-status, low-margin, high-velocity, low-price operators are entering the retail field under the titles of Discount Centers, Discount Houses, Discount Operations, Discounters, etc.

These new types of retailers are often aggressive, cost-conscious operators with no interest in high overhead frills, which include services, elaborate plants, etc. Basically, the avoidance of these was the criterion for the foundation of the Supermarket. P. D. Converse has suggested individual retailers' reasons for the progress toward "maturity" mentioned previously, and the fertile areas for cultivation by "Discounters" as a result of this maturity, as being a relaxation of the vigilance and control over costs as age and wealth were acquired and either the founders, or their successors may be unwilling or unable to adjust to changing conditions.[1] He suggests other reasons, but for purposes of this paper, the author felt these two were the most significant.

Thus, in looking at the past, the Supermarket is created, and reviewing it to the present, the Supermarket, at an advanced state of "maturity," is conceived with its numerous advantages and shortcomings. In terms of the future, the horizon presents alternatives of (1) a continuation of the present form of operations, (2) a continuation of a more progressive growth climaxing in an even more "matured" operation, and (3) the entry of the Discount Operation.

It is with this third alternative, Discount Operations, that this work is concerned. A face "toward the past" is necessary to substantiate the conclusions arrived at by facing "toward the future." The constant state of turmoil and conflict is accepted as part of belonging to the congregation "worshiping" in the "temple" of retailing. A criterion for belonging to and remaining a part of the congregation of retailers is the acceptance of the "Challenge to Change." Discount Operations are a "Challenge to Change."

During the first half of 1960, twenty-three food chains accounted for thirty-five per cent of the total grocery business. By 1965, fifteen food chains may control forty

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[1]Converse, P. D., "Mediocrity In Retailing," *Journal of Marketing*, Vol 23, (April, 1959), pp. 419-420.

per cent of the total food business.[2] These fifteen food chains will be the end result of increased merger and absorption practices by the strong members in the industry. As concentration increases in the industry, chains will be forced to turn to other fields to secure a competitive advantage and to secure their share of the total food business. Discount operations are one answer to the problem of how to secure a profitable and competitive advantage while embarking into merchandise lines which are foreign to their native operations. The Discount center offers the chain an opportunity to profitably gain a share of the total food business while reaping the benefits of mass marketing of lines of merchandise previously foreign to the Super Market Industry.

DEFINITION

To adequately define discount operations one must include the retailer and the consumer. Retailing refers to the sale of goods (other than real estate) and to a lesser degree services to individual ultimate consumers for personal or family consumption.[3] From a consumer's point of view, discount buying consists of making purchases at prices considered more advantageous than those obtainable from

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[2]Weiss, E. B., "Planning Merchandise Strategy For 1961-1965," (Doyle, Dane, Beinbach, Inc., 1960), p. 2.

[3]Hollander, Stanley C., "Discount Retailing," Unpublished Dissertation, Graduate School of the University of Pennsylvania, 1954, p. V.

"accepted forms of retail distribution." Thus, Discount Operations are defined, for purposes of this work, as retail outlets selling goods to individual ultimate consumers for personal or family consumption at prices considered more advantageous than those obtainable from "accepted forms of retail distribution."[4]

It is intended that the scope of this paper be limited to the area of Discount Operations in relation to the Supermarket Industry. However, it is necessary, in covering a topic such as this, to refer to Discount Operations in fields other than Foods.

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[4]In time, Discount Operations may be considered as "accepted forms of retail distribution," but under the present connotations of "accepted form of retail distribution," they are not included.

CHAPTER II

MORE DISCOUNT HOUSES EVERYWHERE

So-called discount houses had their beginning more than a decade ago. The early ones usually had low rent locations and recognized the importance of traffic as a basic tenet of operating on a low margin. The locations were usually in big cities.

Originally, a card of admission was generally a requirement to enjoy the bargains on the appliances that were their principal lines. The card system was designed to limit patronage to customers as opposed to summon-servers dedicated to enforcing fair trade laws. It was the realization by many department stores and appliance dealers of the devastating effects the discounters would have on retailing that caused the legislation and attempts to enforce the fair trade laws.

Many retailers, recognizing the impact of the Supermarkets on the Food Industry, foresaw the decline of a comfortable 35 - 50 per cent margin on non-food lines. Just as the Supermarket was going to bring disaster to the Food Industry in the 'thirties, resulting in much anti-chain legislation and actual picketing in some instances, the discount center was going to bring disaster to the department stores and appliance dealers.

If "disaster" can be defined as decreased distribution costs, and lower profit margins, resulting in a higher standard of living for the consumer, and more disposable income, then the Supermarkets caused a "disaster." So too, the discount firms are, as Franklin W. Gilchrist put it, "a few supermarket type retailers in the field of consumer durables."[1]

As recently as 1954, Discount Houses were still the subject of very severe criticism. Dr. John W. Dargavel, Executive Secretary of the National Association of Retail Druggists, and Chairman, Bureau of Education on Fair Trade, had this to say: "The discount house is deliberately bringing lawlessness to the market place . . . As things stand today, it costs the discount house less to pay the penalties involved in breaking fair trade laws than it would cost them to do honest advertising. They do virtually no advertising because they know once they advertise a price, the discount house down the street will undersell them. For the discount house to advertise is to invite destruction."[2] Thus, feelings such as these prevailed generally resulting in some

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[1] "The Discount House And Channels Of Distribution," Frontiers In Marketing Thought, (Bureau of Business Research, Indiana University, A.M.A., December 27-28, 1954), p. 48.

[2] "More Discount Houses Everywhere - Is This A Threat To Advertising?" Printers Ink, Vol. 247, No. 5, (April 30, 1954), pp. 31-33.

media refusing to place Discount House advertisements. Dr. Dargavel further states that "unless the discount house is effectively curbed, there will inevitably be anarchy in the market place. The American public must ask itself whether it wishes to sacrifice the legitimate retailers who make outstanding contributions to our economic and community life and who are the backbone of our mass distribution system."[3]

Gradually, through time, and as a result of the overwhelming acceptance of the discount houses, such bigotry succumbed.

With increased ineffectiveness of the price fixing regulations, the discount houses became respectable merchants, out in the open, larger, and more aggressive in their promotions.

The discount house is another manifestation of the competitive drive.[4] The philosophy upon which discounting is based is price competition, which is the essence of our economic system. Its emergence at this time is simply evidence of the vitality of our competitive system.[5] It is a direct retaliation for attempted retail price regulation. Also, by insulating competitors, competition may be killed.

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[3] Ibid., pp. 31-33.

[4] Alexander, Ralph S. and Hill, Richard M., "What To Do About The Discount House," Harvard Business Review, Vol. 33, No. 1, (January-February, 1955), p. 53.

[5] Ibid., p. 56.

The far reaching effects of the discount houses have thus far influenced the department stores and drug stores most noticeably. Many are now opening self-service stores with which they hope to meet the discounter's challenge. In a study conducted in Portland, Salem and Eugene, Oregon, the observations revealed that department stores are making increased use of self-selection methods, while discount houses are offering more personal selling help.[6]

It is to the credit of discounters such as Masters, E. J. Korvette, Two Guys from Harrison, and the many others that they were able, in the face of overwhelming obstacles, to operate and continue to operate and achieve their present reputable nitch in the field of retailing.

Korvette rose from two million dollars in sales to one hundred and fourteen million in 1959.[7]

In following the growth of the discounter, it was initially "illegitimate," followed by the thinking that it was desirable that it operate, but only in the event of regulated prices, and finally to the point where other retailers are questioning how to meet this price competition, minus regulated pricing.

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[6]Dodge, Robert E., "How Discount House Selling Has Influenced Department Stores," Journal Of Retailing, Vol. XXXVI, No. 2, (Summer, 1960), p. 97.

[7]Loehwing, David A., "The Hard Sell," Barrons, Vol. XL, No. 29, (July 18, 1960), p. 15.

Discount retailing has emerged in response to price structures which, however justifiable in the past, no longer reflect the necessary costs of retailing many items. Consequently, private enterprise has sought to bring retail prices in line with costs.[8] As Dr. Hollander put it, "the attempt to maintain prices above the equilibrium point has had to face the onslaught of the drive toward equilibrium."[9]

Never in the history of retailing have so many large retailers featured price events to the extent that prevails today. What is more, there is little reason to hope for a reversal of this trend -- discount retailing continues to expand and it will continue to make an impact on most traditional retailers.

E. B. Weiss has suggested in his monthly summary of "Tested Retail Selling Ideas" that in meeting price competition a retailer remember that he can't be the lowest on everything, that discounters sell lines at maintained prices, that discounters take full markup on a large number of lines where the brands are not well known, or non-existent, or where the buyer is not able to judge values competently.[10]

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[8]"The Discount House And Channels Of Distribution," op. cit., pp. 58-59.

[9]Hollander, op. cit., p. 300.

[10]Weiss, E. B., "For Your Information," Chicago Tribune, (February, 1961), p. 4.

Appliance stores are attempting to ignore the Discount Center and concentrate on store appeal, services, salesmanship, promotional gimmicks, etc., while the department stores have resorted to increased self-service, re-evaluation of merchandising techniques, location evaluation, stimulation of feelings against the discount centers through advertising, and utilization of private brand, low-price merchandise for propaganda purposes.

In summary, the conventional retailer, when faced with competition by a retailer has four specific alternatives available, with their numerous ramifications:

1. Abandon the field to the discounter
2. Stress private brands
3. Reduce services
4. Adopt cost-cutting techniques

The end result of the entire movement has been to bring a lower price structure to general merchandise in the same manner as the advent of the supermarkets forced a lower price structure on food distribution. In twenty-three years food distribution has changed more than any other form of retailing and it has come about on the low profit of 1.36 cents per sales dollar on the average for the last twenty-four years.[11]

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[11]"Progress In Food Distribution," statement by John A. Logan, Past President NAFC, to The Consumer Study Sub-Committee of the Committee on Agriculture, House of Representatives, (May 8, 1957).

Department stores, drug stores, hardware stores, etc., are all facing this change now for the first time and, not unlike the supermarket industry, new and dynamic innovations are invading the market to fight for their share of the total retail expenditures by consumers.

This brings about the fourth and final state of the growth of the discounter, and that is, entry into, and competition by, new discounters.

In this new field, entrants are faced with the challenge of operating in the decade of the mass retailer, the man who can move goods onto his shelves and off again at a rapid rate and who has the courage and imagination to utilize all the skills of science and technology available to him.[12]

The fertile areas for the discounter lie in the future, as discounters still have taken over less than one per cent of the total United States retail volume.[13]

The discounters have taken another step toward capturing a larger share of the consumer's dollar by incorporating foods into their operation. It is with the recognition of this magnet for traffic that the discounter came to the attention of the supermarket operators in the form of competition.

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[12]Loehwing, op. cit., p. 17.

[13]Ibid., pp. 19-21.

As the discounter recognized the advantages in selling non-food merchandise below the traditional 35 - 50 per cent margin usually taken by the conventional department stores, appliance dealers, etc., so too, the food discounter has recognized the "high" margins now being taken on the food lines, and consequently, has started to merchandise foods in much the same way as the non-foods, with low-cost, low-margin, high turnover. Some discounters have taken it upon themselves to operate their own food departments, while others have added the food department by leasing.

The natural consequence of food departments in discount centers is that some veteran supermarket operators are branching into the discount field themselves. It seems that supermarket operators are adapting to merchandising non-foods in their own area of low-margin, high-turnover operations. It is with this question that many supermarket chains are now weighing the feasibility of entering discounting.

SUMMARY

As recently as 1954 there were bitter feelings toward the discount house. As the ineffectiveness of resale price maintenance laws became apparent, the emergence of appliance discount centers became evident.

The emergence of discount houses began with a feeling of its "illegitimacy" on the part of conventional retailers. Gradually, this evolved into a feeling of acceptance, but only if resale price maintenance laws were enforced. As the ineffectiveness of the laws became apparent, retailers rose to question how to meet this new competition.

In facing this new competition, drug stores, grocery stores, department stores, etc., have had to re-evaluate their present operations in terms of service, location, markup, etc.

The conventional retailers, including the supermarkets, are facing a challenge much like that of the emergence of the supermarket in the 'thirties.

The re-evaluation of operations has led many conventional retailers to enter into, and contemplate entering into, the discounting field. In particular, it would seem that a natural discount operation would result from the chain supermarket, traditionally accustomed to operating in an area of low-margin, high turnover.

CHAPTER III

PRESENT OPERATIONS

Presently, it would seem, there are four major types of Discount Food Operations in existence.

The first may be termed the Conventional Supermarket Discount Food Operation. It can be described as a separate entity, handling conventional merchandise, with turnover being the principal criterion. In operations of this type, packer label or private brand merchandise of standard or less than standard quality is predominantly promoted as price leaders. In some instances, a grade of beef, less than choice is promoted, again with emphasis on price. The entire merchandising scheme is centered on price, with the emphasis being placed on the theme of "merchandise at a discount."

Usually, in the case of existing discount supermarket operations, such as was the experience of the Colonial Food Store Operation in Dayton, Ohio, when a decision is made to go into discounting, prices are dropped from one to three cents on every item, and an average of 500 to 800 items are discontinued. Items discontinued are those which previous records indicate are slow movers and/or are duplicates of existing lines of merchandise.

Often, the competitive situation in a particular market forces a chain to resort to this practice to maintain a share of the market. As mentioned above, turnover is the key to a successful operation of this type. A rule of thumb advocated by one chain states that volume, in this converted type of supermarket, has to double to retain the profit percentage earned prior to the conversion.

Non-foods are stocked, but are usually limited to the conventional non-food items found in a supermarket, and not the "big ticket" items such as television sets and refrigerators.

Numerous factors must be considered with respect to the name of the operation. Image in the market, characteristics of the market, are factors to be considered. In some instances, it has been to the benefit of the operation to retain the original name, or a portion of the original name of the chain for purposes of acceptance in the market.

Grand Union is a very useful example of a discount operation retaining a portion of the original chain name in their "Grand Way Savings Center" operations. The most recent progressive change, showing the importance of the name of the operation, has been Grand Union changing the names of their operations from "Grand Way Savings Centers" to "Grand Way Discount Centers." At a recent University of

Massachusetts conference on discount houses, Mr. E. Brightman, Vice President of Merchandising for Grand Union, declared that the company considers "Discount" as a key word in attracting customers.[1]

Advantages of this type of operation would include increased turnover of existing profitable lines, as a result of increased traffic, more effective utilization of existing shelf space in that only high volume merchandise is being stocked, and inherent in this is the cost savings resulting from less inventory and more efficient utilization of labor. Also, an operation of this type, depending on the market area, will be competitive, in that it is meeting and beating existing prices.

In shifting from a conventional type operation to the discount operation, the number of prices lowered will vary from 1700 to 2000. The Supermarket Institute indicated that discount centers do not tend to cut their margins on staple, low-priced merchandise, nor do they take less than the full markup on gadgets and small housewares.[2]

The second type of Discount Food Operation is closely related to the preceding type with the major difference

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[1] "Grand Union V-P Foresees Swift Decline of Leased Departments In Discount Stores," Super Market News, Vol. 10, No. 15, (April 10, 1960), p. 50.

[2] "Super Markets of the Sixties," Super Market Institute, Inc., Vol. 1, p. 101.

being in the non-foods department. It is primarily a food distribution operation and is merchandised as such. In the non-food lines the conventional merchandise is handled and, in addition, the larger ticket items are stocked.

Traffic is generated by the low-priced food staples, thus creating a high turnover of low-margin items, resulting in an acceptable profit. In addition to the profit on the food items, profits from the high turnover (compared to normal retail outlets) of non-food items including the large ticket items, generated by the heavy traffic, are earned.

In some instances food items are used as loss leaders and may be sold below cost to create heavy traffic resulting in a low-margin, high-turnover operation.

It is not unusual to have operations of this type handling upwards of 7500 food items and approximately 30,000 general merchandise items.

This particular type of operation is evidently feasible in view of the fact that the Grand Union Chain had twenty Grand Way Discount Centers operating in five states as of October, 1960.[3] Facts and figures are not available, but by the fact that the chain has continued to expand in that direction, it may be assumed that they are a profitable segment of the corporation.

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[3]"Grandway Opens 2 New Florida Units," Super Market News, Vol. 19, No. 44, (October 31, 1960), p. 36.

The third major type of Discount Food Operation could be described as a department in a discount center. The food department may be leased from the center or may belong to the corporation which developed the center. The other departments will usually include a drug operation, snack bar, and the conventional department store lines, including hardware.

In the New York area, many small chains and independents are branching into discount operations on a leased department basis. Waldbaum, Inc., a thirty-unit local chain, is operating a 12,000 square foot supermarket in White's Discount Center. Royal Farm, a Brooklyn Food Chain was operating a leased department in The Billy Blake Discount Center in Brooklyn and later purchased the entire operation. The Zayre Corporation, an open door discount chain, will combine operations with Eagle Foods in opening a unit in Chicago, Illinois.

The E. J. Korvette Operations plan to add three supermarkets to the two already in operation in their Discount Centers. Korvette's policy in the future will be to include Supermarkets in all new Discount Centers, except in the instances where exclusive contracts have been negotiated in shopping centers.

A ramification of this type would be the discount center with a conventional supermarket operating on a leased basis.

National Tea Company of Chicago is currently operating a conventional supermarket within Topps Discount Center at Niles, Illinois. Proponents of this type believe that the supermarket will help to generate traffic, thus creating an opportunity for turnover of the center's non-food merchandise. Food chains fortunate enough to be operating in such centers have a very lucrative operation in that normal promotional expenses are adequate, as trade is generated by the discount center, in addition to the normal traffic resulting from the supermarket. Promotional items such as stamps, bonus cards, etc. are usually continued if the chain customarily uses them.

Another type of food department operating in the center is the discount food operation. It is this type that contributes immensely to the over-all success of the entire discount center. Not only is it a competitive leader with the conventional supermarkets in the area, but it is a leading factor in the center as a result of the weekly or semi-weekly demand for staples, generating traffic, and resulting in high turnover of inventories in all segments of the center.

Usually, the over-all central theme inherent in the advertising promotions for this type of discount center is the "Complete one store discount shopping." Essentially it is the "one stop shopping" theme promulgated by the shopping centers with the vital word "discount" added for purposes of creating an image in the market.

In addition to the "complete one store discount shopping" theme, discount centers of this type usually advertise "no admission cards . . . no passwords . . . everyone is welcome . . . etc."

The fourth major type of Discount Food Operation is very similar to the preceding one except that it has a "membership" stipulation. Commonly referred to as a "closed door" operation, this type "allows" customers to shop in the center only if they are a member of a certain organization, such as a labor union, or if they are employed by a specific organization, such as the government. The Kroger Company is currently operating a 24,000 square foot leased supermarket in the GEM international discount house in the St. Louis area. GEM is a closed door discount house operation. In analyzing the various qualifications for membership in the closed door discount center, it is readily apparent that few people are unqualified or unable to acquire a card to enter the center.

This type of operation is in a unique position in that it not only generates traffic through prices, but also creates the psychological effect of <u>giving</u> the consumer an <u>opportunity</u> to belong to an organization plus the fact that this opportunity is a "scarce" commodity.

By limiting membership, in a very loose sense of the phrase, the closed door discount center provides itself with a steady medium-income group that makes excellent customers. A pinpointed homogeneous market means concentrated buying in price ranges pretty well by income and akin to taste. Limited promotion, again pinpointed to its market, also cuts costs.[4] In addition to having a homogeneous market, the center has a very effective mailing list.

Closed door merchants claim that the usual open door discounter uses many loss leaders to promote traffic, while the closed door discounter professes a day-in, day-out, low markup across the board.[5]

In addition to the closed door discount centers customers being chosen by membership in an organization, there is also the very feasible entry into a closed door operation by fees or dues such as The Consumers Mart of America whose members pay $2.00 annually for membership and the CMA news. It is estimated that 100,000 members pay this fee. From the two operations in the Chicago Area, CMA expects to gross $120 million by the end of 1962. Membership in a discount operation by means of fees or dues involves each customer paying on a yearly basis, or once in a lifetime

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[4] "Closed Door Store Comes Back," Business Week, No. 1624, (October 15, 1960), p. 60.

[5] *Ibid.*, p. 60.

a nominal fee, usually one to three dollars and receiving in return an opportunity to shop in a particular discount center. Again, this sense of belonging or obtaining a "scarce" or "limited" commodity is prevalent.

Basically, the fees or dues are a direct addition to working capital, at no cost to the Discount Center for use of the money.

Another advantage of the closed door discount center is the reduced credit losses, bad checks, and shoplifting, as a result of the members being selected on the basis of their employers, organizations, etc. It is hoped that this would eliminate the specific type of individual responsible for bad checks, etc.

SUMMARY

Specifically, there are four major types of discount food operations existing today.

1. Conventional Supermarket Discount Operation. Price would be the predominant characteristic of this type of operation, handling only high turnover merchandise, some of sub-standard quality, and a limited line of non-foods, excluding the "big ticket" items; e.g. television sets, stoves, etc.

2. The second type is similar to the first type in that it is primarily a food operation, but increased emphasis has been placed on non-foods, including the big ticket

items. Traffic is created by the food with increased turnover of non-foods (compared to normal non-foods turnover) through the traffic generated by the food prices.

3. The third type of discount food operation is a department in a discount center. A ramification of this would be the conventional supermarket operating in a discount center, with no discount prices. The central theme of either type of operation is complete one-store discount shopping.

4. The fourth type is the closed door discount center. The primary advantages in this type of operation are two; limited entry, causing demand for the opportunity to patronize such an operation, and a homogeneous market. A ramification of this type of operation would be the charging of a membership fee, thus providing the discount center with working capital at no cost.

CHAPTER IV

THE MASS MARKET

"The Supermarket operators are indeed leaders in distribution and will continue to keep ahead of the changing time,"[1] so stated Dr. E. A. Brand, former Director of the Curriculum in Food Distribution, Michigan State University. The governing criteria by which a supermarket operator (included in this term are top managements) continues to "keep ahead of the changing times" is the acceptance of industry innovations by the consumers. One step beyond the acceptance of the innovations by customers is the continuation of them by the innovator. The continued offering by the innovator is ultimately dependent upon profits in the final analysis.

A simple definition of the word profit means to gain, as from a business transaction or a service. For countless numbers of years, men have been trying different plans to make money. And for the same countless numbers of years, only one answer was found to be applicable. It is simply that there is no profit in anything other than through a fair exchange of commodities or services.

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[1]Brand, E. A., "Supermarkets and the Changing Times," Adaptive Behavior in Marketing, (AMA, 1956), p. 5.

It is this last phase, "through a fair exchange of commodities or services," that should govern the relationship of the discount center to the consumer.

Customer preferences have not initiated significant changes in supermarket merchandising. The history of the industry has been that the operators provide the innovations which the consumers endorse and approve. The consumers didn't ask for the supermarkets in the first place, but they were enthusiastic when the industry's pioneers made supermarkets available.[2]

It is now the concern of the discounters whether the new concept of complete one stop discount shopping under one roof will win the endorsement and approval of the consumer, and also, the question before the innovistic discounter is whether the endorsement and acceptance by the consumer will provide the necessary profit to warrant the continuation of this innovation.

In an analysis of the consumers' endorsement and acceptance of the discount center with its one stop, one roof discount shopping theme, it is necessary to segregate their numerous advantages and then relate the different types of consumers, with their various backgrounds, finances, and desires to the operations of the discount center.

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[2]"Present Form of Super Seen Enduring," Super Market News, Vol. 9, No. 50, (December 12, 1960), p. 32.

As was mentioned earlier, the discount center has basically the characteristics of the supermarket at its inception, including low-margin, high turnover, few services, relatively insignificant fixtures, low-rent location, few promotional gimmicks, and almost complete self-service.

As time progressed, the industry matured and as competition increased, the advantages inherent in the initial operation of the supermarket became extinct. To secure a better location than the existing supermarket, for purposes of obtaining a competitive advantage, the competitor had to seek a higher rent location. To attract more customers to a specific store, the competitor had to introduce competitive gimmicks. And so it continued to the present advanced stage of development. In each case, the consumer paid for the extra conveniences that were enjoyed. Higher rent meant more convenience and the margins on foods increased; promotional gimmicks such as stamps meant premiums as a result of shopping at a specific supermarket; but the stamps, like advertising, convenience location, services, etc., are a cost of doing business and are a cost to the ultimate consumer.

It is at this present stage that the public has stopped to review, and in many cases revise, their spending habits. As was mentioned above, the consumers do not initiate the innovations, but upon presentation they endorse and approve them in terms of patronage, resulting in "doing business" at a profit or reject them in terms of continued patronization of established operations, resulting in not doing business at a profit and discontinuation of operations.

In an era of rising disposable personal income, an increase in costs of doing business resulted in an increase of cost of merchandise to the consumer. These increases were not noticed to the extent that the consumers refused to shop in a particular outlet.

It was the discounter that initiated a re-evaluation of spending habits of the buying consumers.

In addition to this re-evaluation of spending, and in conjunction with it, there has emerged the sophisticated consumer. During the fifteen years following World War II, the American consumer received history's fastest and most revolutionary education in making and spending money. Today the very high living standards are accepted as a matter of course; there is a tendency to forget that the vast majority of citizens have only reached them in the past decade and a half or so.

Millions of families whose incomes amounted to $3,000 or $4,000 in 1945 are easily making double that amount today and each income group has experienced successive substantial increases.[3]

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[3]Koeves, Dr. Tibor, "The Changing Consumer of the Sixties," Specialty Salesman, Vol. 50, No. 3, (March, 1961), p. 18.

With this unique and happy state of affairs, new homes were built and/or bought and furnishings were secured in terms of countless necessities, conveniences, and luxuries. In addition to the necessities, conveniences, and luxuries, the buying consumer felt it necessary to purchase goods to show the world how well they were doing in terms of material purchasing power. It was an era of "Status-Seekers," and the overpowering desire to belong to a higher class. It was the purchasing power that provided the consumer with the proof of "belonging."

While the consumer was buying, he was buying in areas unfamiliar to him. It was the era of the inexperienced buyer who was at the motivational mercy of the retailer, in terms of services, promotional gimmicks, elaborate facilities -- all added costs of doing business.

Motivational research studies show that this period of indiscriminate buying is, on the whole, drawing to its end. In the 1960's, buying has become a more balanced and mature process from the emotional point of view. And on the rational level, buyers have become increasingly more knowledgeable, more discriminating, and more experienced.[4]

Greater emotional stability and greater experience in buying mean that more and more this decade will be characterized by selective buying. In the future years, buying

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[4]*Ibid*., p. 19.

for buying sake or to show off will be a motivation of diminishing force.[5]

In the role of an experienced buyer the new consumer, from a balanced emotional point of view, regards products in terms of how they confirm, enrich and express his accepted identity in his own eyes.[6] The new social and economic position has been accepted and is no longer in danger of being questioned. Now, the products available are a means of satisfying completely this new position.

However, included in this new type of emotionally stable consumer is a strain of the previous type of rational individual. This constitutes the experienced buyer, matured from the emotional spend-for-spending sake, show-the-world type of individual, but still regulated by the rationality of the pre-prosperity era.

As a result of this rationality, combined with the desire to purchase products for purposes of satisfactorily completing this new position, the present consumer wants the "genuine" article. He wants products that enrich his personal and family life. The consumer is economy-conscious and quality-conscious. The purchaser is willing to pay a higher price, but only if convinced that it is of genuine quality, otherwise he will want a bargain. This would

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[5] *Ibid.*, p. 19.
[6] *Ibid.*

imply a pre-sold demand for national brand items and a price bargain acceptance on private brand items.[7]

By the same token there is a growing rebellion against frivolous and artificial obsolescence. The consumer will be less ready to buy products only because the color scheme or design has changed.[8] (The automobile industry is currently facing this emerging situation.)

As a result of being experienced, the consumer expects the retailer to recognize that he is more knowledgeable, more discriminating, and less emotional.

It is recognized that there are minor exceptions to this stereotyped consumer, but this will include the majority of consumers.

In addition to the results obtained from motivational research studies, Stephen Masters, President of Masters, Inc., one of the truly great pioneers in the field of discounting, or as he calls it "low margin retailing," at a recent meeting of the National Retail Merchants Association referred to the shoppers in discount houses as being "among the shrewdest of all shoppers." He further stated that "the discount customer tends to be somewhat young, keenly interested in buying at rock bottom prices, and very well educated in the

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[7] This will be discussed more extensively in a later chapter.

[8] Koeves, op. cit., p. 19.

realm of retail value."[9]

Distribution is now serving a sophisticated consumer to the degree that sophistication is a compound of native intelligence, education, observation, and experience resulting from the new position of relative prosperity and social status experienced by the consumer.

It is into this changed market composed of "sophisticated" consumers that the discount house has presented itself, and like the supermarket, the consumer did not ask for it, but the fact that it was initiated by an innovator and endorsed and accepted by the consumer makes it a serious competitive factor in the market today.

The discounter, realizing that the present prospering consumers were not service oriented shoppers, satisfied their wants in terms of very limited service, one stop shopping cash sales.

The rapid rise of the suburbs with the do-it-yourself trend made the limited service discounter a natural substitute for the high service, elaborate facility type department store. The discounter has provided for the consumer the option of utilizing different services and paying for

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[9]Masters, Stephen, "What Does the Consumer Really Want in the Way of Service," Speech presented at the Fifth Store Management Group Workshop at the Harvard Business School, (Boston, Massachusetts, June 17, 1959).

them. If an item is delivered there is a delivery charge to each customer using it, but not to the customers not requiring delivery. In instances of warranties on branded merchandise, they are promised and supplied by the manufacturer and fully honored by the discounter. Thus, the consumer has the alternative of exchanging services for price savings. In creating this alternative, the likelihood that any consumer will be able to find a combination of price and services that meets his preferences has been increased.[10]

The supermarket has educated the consumer over the past years on the feasibility of self-service and self-selection. In the supermarket, the consumer pays for extra services desired, delivery, stamps, etc. The consumer has been educated to expect a share of savings in his purchases as a result of foregoing services and elaborate facilities.

It has been the supermarkets that created a distribution system made up of consumers conditioned to the idea of taking care of their own wants once they are allowed access to the goods in which they are interested.

In addition to this new consumer's prosperity and

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[10] "Competitive Impact of Discount House Operations on Small Business," Hearing before a Subcommittee of the Select Committee on Small Business United States Senate, Eighty-Fifth Congress, Second Session, June 23, 24, and 25, 1958, (United States Government Printing Office, 1958), p. 401

sophisticated spending, the increasingly large amount of leisure time available to the male member of the family for purposes of purchasing and performing various services during the purchasing process has been an important factor in the acceptance of discount centers by the consumers.

It is also interesting to note that a minority of individuals, accustomed to a higher status of living than current earnings allow, will use the discount house as a means of continuing this conspicuous consumption through more economical purchasing of branded merchandise.

And finally, present consumers are generally susceptible to new ideas. Never before in history have so many new products been offered to the consuming public. Almost daily, various phases of life are affected by innovations, resulting in a consumer conditioned to change, not resistent.

The discount center offers a specific change in the consumer's shopping habits. It is available to the masses, similar to mass education, mass production in factories, and many other related activities available to, initiated for, and accepted by the "mass" consumer.

Granted, discount centers do not appeal to every consumer, just as the supermarket does not appeal to every consumer. There are many shoppers who do not like clogged aisles, noise, confusion, etc. Many shoppers desire service from the salesperson, etc. Consequently, discount centers, like all other innovistic forms of retailing cannot and do not expect to secure the entire market. Traditionally, those individual customers will continue to shop with the traditional retailer. But it is to this new mass market that the discount center was specifically created and it was the masses in the market that endorsed it by their acceptance in terms of patronage.

SUMMARY

The advent of the discount center, like that of the supermarket, was not asked for by the consumer but upon being provided with a discounter they endorsed and accepted the discounter, as they endorsed and accepted the supermarket in the 'thirties.

As costs of goods increased, with an appreciable rise in disposable income, the consumer continued to purchase from the conventional retailer. The discount center forced a re-evaluation of spending habits by the buying consumer.

The purchasing consumer has, in re-evaluating his spending habits, emerged as a sophisticated shopper in terms of education in the realm of retail buying and emotional stability. Inherent in this sophistication is a desire for quality and growing rebellion against frivolous and artificial obsolescence.

It was the new mass market that the discount center was designed for and it was the mass market that endorsed it in terms of their patronage.

CHAPTER V

MASS MARKET MERCHANDISE

NATIONAL BRAND MERCHANDISE

In the preceding chapter the new consumer was described and it was noted, as in any evolution, certain characteristics from the past are apparent in the present consumer. Although retailing is catering to, and tending to cater to, this new consumer, one salient characteristic is readily identified; every consumer, regardless of income, wants value for his money. This new type of consumer wants value concentrated in the merchandise.

A popular misconception (and there are many) is that the discount center advertises national brand merchandise in much the same way as the supermarket advertises loss leaders. The belief is that by advertising national brand merchandise the discounter will generate volume on many standard priced items through the traffic created by the advertisements. Basically, this is sound reasoning, but only if the operation was not of the discount type. Inherent in the definition of a discount operation is the idea that the consumer is able to secure <u>all</u> goods at prices below the normal conventional retailer's prices.

Stephen Masters describes a "true discounter" as one "offering a discount on every item in his store."[1]

Thus, in advertising national branded merchandise, the discount center is offering to the consumer a commodity which is competitively priced at substantial savings. The values offered by the discounter in an advertisement are limited by space, but they are indicative of the values available in the discount center.

Advertising is used to build sales and unit volume to a higher and higher point where it will substantially lower the cost of operation, thus enabling the discounter to offer even lower prices to the consumer.

A description of the new consumer included the characteristic of being "well educated in the realm of retail buying." Mobility is a part of the new consumer and has contributed immensely to the education of the consumer in the "realm of retail buying." Comparative price shopping is common in this era of mass distribution. The availability of transportation, accessibility to shopping centers through ultra-modern expressways, and the amount of leisure time available for shopping all contributed to the educated consumer the discount centers are now serving.

National brands are a strong traffic generator for the

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[1]Masters, op. cit., p. 7.

discount centers. In light of the potential volume to be distributed through discount centers, many manufacturers have ceased to attempt to enforce resale price maintenance laws. In the beginning, discounters were a relatively minor part of the total sales of the manufacturer. It was necessary in order to preserve existing consumer relations to pay lip service to resale price maintenance.

With the advent of unenforced resale price maintenance laws the manufacturer, in most instances, has lifted the restrictions upon who buys his merchandise.

Thus, another false impression of the present discount centers has been eliminated. It was believed, and perhaps in the beginning it was true, that discount centers handled odd lots, irregulars, and discontinued national branded merchandise. This is true to a limited degree, in terms of deal purchases where the savings are passed on to the consumer in addition to the prices normally offered by the discount center, but this is not the normal merchandising techniques employed by a discounter. National brand merchandise of first line quality is available to discount centers from manufacturers. National brand manufacturers have realized the feasibility of supplying discounters with their merchandise in terms of increased sales and decreased distribution costs. The national brand items in the discount center are competitive with many private brand items and, in some instances, undersells the private brands of normal retail distributors.

National brand manufacturers by supplying discount centers make available to the consumers impulse items. The traffic in a discount center increases the percentage of impulse items purchased.

In a recent survey conducted by the A. C. Nielsen Company a trend was established that consumers desire to shop in increasingly larger stores. In 1958, 69.9 per cent of the purchasers of a thirty commodity group indicated their desire to shop in larger stores. In 1959, 71.4 per cent cast their ballot in that same direction. In 1960, 72.8 per cent followed the trend.[2]

Discount Centers are a step toward the "larger stores." It would be a valid assumption that national brand manufacturers are catering to the consumer through discount centers.

The mass marketing concept is rapidly advancing in the form of larger and larger retailers. The discount center is perhaps the one new mass market retailer with unit stores averaging from 100,000 to 180,000 square feet and above. As they are accepted more widely, they will naturally evolve into a chain of one stop shopping under one roof discount centers. By 1965, E. B. Weiss believes that national dis-

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[2]"The Consumer Votes," (A. C. Nielsen Company, 1960), p. 9.

tribution by a manufacturer will be effected by going through fifty chains or, even at the extreme, twenty-five chains.[3]

Merchandising national brand merchandise in a discount center places many burdens upon the manufacturer.

The primary burden is one of pre-selling. It is necessary in the case of existing brands and particularly in the case of new products to continually pre-sell them to the consumer.

In an analysis over a two-year period, covering forty-five product groups in grocery stores, thirty-three of these product groups had no really successful introductions during the period and this group's sales increased only 9.7 per cent. On the other hand, a group of twelve, in which manufacturers successfully introduced, advertised, and merchandised new brands, showed a sales gain of 17.9 per cent.[4]

The second burden, and equally important, placed upon the manufacturer merchandising national brand merchandise in a discount center is packaging. A leading factor in the successful introduction of brands in recent years has been packaging convenience. Adequate packaging is necessary to satisfy both the consumer's desires and the discount centers'

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[3] Weiss, op. cit., p. 3.

[4] "26th Annual Nielsen Review of Retail Grocery Store Trends," (A. C. Nielson Company, 1960), p. 17.

operations. Designing cases for "tray-stocking" is one of the criteria for successful discount food center operation. Other innovations in operations will appear and it will be the responsibility of the manufacturers to adapt to meet the changing needs. A very good case in point is the recent change in the size of the Kleenex tissue boxes. This product is readily structured for distribution in a discount center, offering sufficient inventory to satisfy demand and yet utilizing existing shelf or display space most effectively as a result of the size of the individual box being reduced to approximately one-half, but still containing the standard 400 count.

To the consumer, the manufacturer has the responsibility of creating a package that will clearly identify the merchandise, in terms of quality and benefits inherent in the product.

To the discount center, the manufacturer has the responsibility of providing an attractive package, conducive to impulse sales. Also, the package must be such that it does not add to distribution costs.

There are many factors to be considered depending on the manufacturer's products. It is not the purpose of this work to educate and point out to the national brand manufacturers what should be their packaging policies, but rather it is desirable that the manufacturer be cognizant of the necessity for adequate (in terms of the consumer, the manufacturer, and the discount center) packaging of their products for mass distribution through the discount center.

CONTROLLED LABEL MERCHANDISE

It would seem in many instances that national brand merchandise is inherent in many definitions of a "Discount Center."[5] It is a natural assumption that a discount center, with its relatively low advertising expenditures, low labor cost as a result of self-service, and its less than optimum location would require national brand merchandise to operate. National brand merchandise is required to operate successfully in terms of generating traffic, but national brand merchandise can and should be supplemented with "controlled label merchandise."

Controlled label merchandise would include any merchandise packaged for, or produced by, a retailer for distribution through their outlets exclusively. Primary requirements for any merchandise, and more so controlled label merchandise, demand that quality, quantity, and price coincide with the value judgments of the purchasing consumer.

Controlled label merchandise has contributed much to the successful supermarket story. Controlled label merchandise was a necessary tool to be used in building an industry

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[5]Doctor Paul E. Smith, Professor of Marketing at Michigan State University suggests that a discount center, a) implies that there is a legitimate markup (set price) from which a discount is given, b) sells national brands, c) has limited stock in depth and breadth, d) has less than optimum location, and e) has volume.

in the face of rising costs, which were causing increased costs to the consumer.

As the leading chains in the food industry grew larger and as they continue to grow even larger in terms of national distribution, controlled label merchandise will become an even more influential factor in the market.

Sears, Roebuck and Company is an existing example of a company meeting the requirements of quantity, quality, and price coinciding with the values of the purchasing consumer. Their theme includes the idea of "the best buy for the money," implying that the product may not be the best, but that it is the best buy for the money.

Through this policy, Sears has established a controlled label merchandise reputation comparable to many national brand manufacturers. The distinction separating the two is negligible.

In a recent survey by Burgoyne Index, Inc., it was noted that private label[6] grocery products were endorsed by three out of five shoppers.[7] In the same survey, it was learned

[6] The author would like to note that the merchandise referred to in the Burgoyne Index, Inc. survey as "private label" merchandise is in essence the "controlled label" merchandise referred to above in this paper. Private label merchandise would include merchandise, packed only once or twice during a season, available to any retailer for resale, limited supply due to the minor role the packer plays in the manufacturing industry and usually "footballed" as a loss leader.

[7] "Discount Operations Held Posing Danger to Supers," Super Market News, Vol. 10, No. 1, (January 2, 1961), p. 43.

that seven out of ten consumers felt that private brands were a real value and, also, it was noted that only sixteen per cent of those consumers interviewed buy no private label merchandise.[8]

Again, returning to the effects of the supermarket industry on retailing, it was the supermarket that conditioned the consumers to accepting and endorsing controlled label merchandise.

In mass distribution, it is becoming even more important that the chains establish a corporate image in their numerous outlets. It is a reported fact that today, twenty per cent of the families in the United States move to a different location every year.[9] To substantially capitalize on the profitability of controlled label merchandise, it is imperative that a corporate image be associated with the merchandise and, also, that in instances of mergers the corporate image be established in those outlets.

As discount centers grow and become chains on a national basis, controlled label merchandise will be almost as important, in all lines of stock, as the national brands. Controlled label merchandise will aid the discount center as it has helped the supermarket industry to meet, effectively, the problem of rising costs.

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[8]*Ibid*.

[9]Lecture by Doctor Paul E. Smith, Professor of Marketing, Michigan State University, East Lansing, Michigan.

PRIVATE LABEL MERCHANDISE

Private label merchandise is a result of the free enterprise system in the United States. Many packers and manufacturers, not large enough to effectively compete on a national basis, can compete in local areas for their share of the market. The inability to compete nationally may be the result of limited facilities, limited raw materials, etc. Regardless of the reasons why, they nevertheless compete locally and because of substantially lower costs of doing business, be it reduced quality, low advertising expenses, less administrative expense, etc., they are able, usually, to offer the merchandise at a substantial savings to the retailer.

The retailer, in promoting private label merchandise, recognizes that price is definitely the primary promotional ingredient in the product. Consequently, private label merchandise serves as a loss leader for the retailer. Sometimes, private label merchandise is sub-standard in quality and other times it is comparable to the national brand merchandise, but, regardless, price is the customer drawing card. It is through merchandise such as this that discount centers are able to strengthen their price image in the market.

Thus, each type of merchandise, national brand, controlled label, and private label, plays its part in the successful story of the discount center.

As existing chains continue to expand through mergers and building, the remaining independents and small chains will disappear either into the larger chains or into voluntaries or cooperatives. This transition will add to the growth of controlled label merchandise and advance it to the point where it can effectively compete with national brand merchandise.

The demand for increased quantities of controlled label merchandise will lead to the purchase of small manufacturing and packing companies by chains for purposes of producing controlled label merchandise. The small plants not purchased by the chains will be engaged in producing, on a contract basis, controlled label merchandise or national brand merchandise.

In all instances, private label merchandise[10] will cease to be a competitive factor in the market. The real competition will take place between the national brand merchandise and the controlled label merchandise. The degree of competition will be contingent upon the amount of integration of manufacturing by the chains with its numerous problems of product research, product development, procurement of raw materials, and the various other requirements inherent in manufacturing.

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[10] See Footnote 6 for the characteristics of private label merchandise.

Depending upon the degree of integration of manufacturing in retail chains a more competitive factor in the market is rapidly emerging; internal competition. The issue is not should a manufacturer compete with himself. Rather, the basic query must be, how, under existing market conditions and in line with future trends, can a manufacturer compete with himself more profitably?"[11]

Internal competition, as a result of mergers and expansion, has produced such competitive products as the Evinrude and Johnson boat motors which are produced by different plants, but are owned by the same parent organization. Numerous examples are available in the soap and detergent products, as well as paper products, and, in some instances, health and beauty aids.

By producing competing products, a manufacturer has control over the degree of competition one product is subject to in any market.

In relating the important battle of the brands to the discount center, it is seen that as competition becomes more rigorous, advertising and pre-selling will be a natural reaction, thus dismissing the burden of substantial advertising on the part of the discount center. Controlled label merchandise will continue to supplement national brand merchandise and continue to be a profitable item for the

[11]Weiss, "Planning Merchandising Strategy for 1961-1965," op. cit., p. 1.

discount center. As the discount center evolves into a national chain, controlled label merchandise will satisfy a demand created by the consumer.

Countervailing powers, the neutralization of one position of power by another, will tend to regulate the competitive effectiveness of internal competition within the large manufacturers. As their prices tend to rise, retail chains who are large enough to produce their own requirements will integrate manufacturing into their operations, thus insuring merchandise from the large manufacturers on a competitive basis. Also, this thesis would include the probability of one large manufacturer, as profits rise in a market, to enter that competitive market, causing profits to diminish and prices to the consumer to decrease as a result of increased competition.

In any discussion of brands, it is necessary to remain cognizant of the importing of foreign manufactured products, and their increasing importance upon the market. Their acceptance by the consumer will depend largely upon the country exporting the product and the world situation. Price is the main attraction of such merchandise, but even that will not generate sales in the event of ill will toward the country where the product was manufactured. Items of this type offer excellent promotional material for discount centers, but they must be purchased with prudence, in terms of inventory turnover. Long term contracts for merchandise must be avoided in order to achieve maximum turnover of the merchandise at a favorable consumer acceptance period.

SUMMARY

It has been noted that national brand merchandise, as a result of unenforced resale price maintenance laws, is available to the discount center in regular merchandise, not irregulars, odd lots, or discontinued lines.

Consumers have indicated a desire to shop in larger stores and discount centers, through offering national brand merchandise, are catering to this desire.

In selling national brand merchandise through a discount center, the burden of pre-selling and adequate packaging is almost totally placed upon the manufacturer.

National brand merchandise is necessary for the successful operation of a discount center, but it is also necessary that it be supplemented with controlled label merchandise, which would include any merchandise package for, or produced by, a retailer for distribution through his outlets exclusively.

As chains of retail outlets grow larger, controlled label merchandise will become an even more influential factor in the market. In the future, competition will emerge between national brand merchandise and controlled label merchandise on a regional or national basis, as a result of the size of the chains of retail outlets, including discount centers.

Private label merchandise contributes to the strengthening of the discount center's price image in that it is available, usually, at a substantial savings to the consumer.

As a result of mergers and growth, private label manufacturers will eventually disappear, either into the larger chains or into voluntaries or cooperatives.

Competition between the brands is, and is tending toward, a competitive struggle of the controlled label merchandise versus the national brand merchandise; included in the national brand merchandise is the internal competition between competitive lines owned by the same parent company, e.g. the soap companies, paper manufacturers, and the automobile manufacturers.

The result of this competition will be an adequately pre-sold line of merchandise available to the consumer through a discount center with little or no advertising necessary.

Countervailing powers will tend to regulate the effectiveness of internal competition.

Imported merchandise will be profitable promotional merchandise, depending upon the international situation at that specific time.

CHAPTER VI

THE EMERGENCE OF MASS MARKETING

"We will see by 1965 a retail organization that will include under one corporate control a group of department stores, a food chain, a drug store, a variety chain, and a miscellany of other types of outlets, including even gas stations,"[1] so stated E. B. Weiss, in looking forward to the period between 1961 and 1965.

In carrying Mr. Weiss's foresight one step further, the conventional retailer is facing and will face an even stronger factor in the market, the one stop shopping discount center, an evolution of the retail organization spoken of in the preceding paragraph.

It is the need for and the acceptance of which motivated the emergence of the discount center, a mass marketing operation.

It was a combination of merchandising techniques from which the discount center evolved. In the past, drug stores have merchandised department store items, food chains have merchandised hardware lines, and many other examples are evident in retailing. Various retailers have taken on

[1]Weiss, "Planning Merchandising Strategy for 1961-1965," op. cit., p. 2.

traditional lines associated formerly with the specialty retailers. It is difficult, as a result of this mix-match merchandising, to distinguish one operation from another.

Food chains recently have recognized the advantages in being associated with, or being a part of, a discount center.

Sidney R. Rabb of Stop & Shop believes that "this discount store-supermarket combination is a natural evolution in retailing . . . its future is likely to be similar to the supermarkets."[2] Stop and Shop even more recently, April, 1961, completed negotiations for the acquiring of Youth Center-Bradlee, an eight-unit discount chain in the Massachusetts area.[3]

Thomas C. Butler of Grand Union, in regard to the concept of one stop shopping under one roof, stated that "Consumers . . . have evidenced a growing preference for one stop shopping. The traditional supermarket proved this. We at Grand Union have proved to our satisfaction that the pattern does not stop with food."[4] Grand Union's

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[2]"A Trend: Food-Discounter Under One Roof," Chain Store Age, Grocery Executives Edition, Vol. 37, No. 4, (April, 1961), p. 37.

[3]"Executive Notebook," Super Market Merchandising, Vol. 26, No. 4, (April, 1961), p. 7.

[4]"A Trend: Food-Discounter Under One Roof," op. cit., p. 37.

convictions are evidenced by the growth of the "Grand Way Discount Centers" in five states, with a total number of twenty units.

The importance of general merchandise in an operation, as recognized by the innovistic leaders in the food industry quoted above, is readily apparent from several studies conducted by Loewy, Snaith, Inc. The figures are from the U.S. Government Department of Commerce and Department of Labor. These figures vividly demonstrate the sensitivity of the movement of merchandise to the availability of disposable personal income.

As disposable personal income goes up 1 per cent the amount of money spent on food goes up only eight-tenths of one per cent. On the other hand, the amount of money spent by consumers for durable toys goes up 1.5 per cent. The amount of money spent for drugs and sundries goes up 1.4 per cent. For non-durable toys and small sportswear it goes up 1.3 per cent. In converting these figures to dollars, if a customer has $80 extra to spend for food, she will have $130 to spend for non-durable toys. These are relative figures and not absolute, but they are indicative.[5]

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[5]"How The Loewy Approach Contributes To Profitable Progress In General Merchandise," by Neal Hathaway, Vice President of Raymond Loewy, William Snaith, Inc., Presented at Super Market Institute Conference On General Merchandise, (January 13-14, 1961), pp. 4-5.

As disposable income rises 1 per cent, expenditures for soft goods and apparel goes up only six-tenths of one per cent.[6] Next to food, apparel is the biggest traffic producer in a discount operation,[7] and like food, in terms of added expenditures in an era of rising disposable personal income, it places very low percentage wise.

It is important to note, however, that in food and apparel lines, the discount center has the leading two lines necessary for, and capable of, generating traffic. In addition to profits normally earned as a result of high turnover of inventory, the discount center, as a result of continuous studies of items and lines with high sensitivity to disposable personal income, could merchandise such lines and items for additional profit.

The first step by supermarkets in branching into operations other than conventional supermarket lines has been toward the acquisition of existing drug chains.

In combining a drug store operation under one roof with the supermarket, numerous benefits are derived: 1) It broadens the number of drug items which can be carried, 2) It provides the ultimate in one stop shopping, 3) It offers customers waiting for a prescription an opportunity

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[6] Ibid., p. 5

[7] "Discounters' Future? Even Brighter?" Super Market News, Vol. 10, No. 15, (April 10, 1961), p. 50.

to shop for foods and non-foods, and 4) It builds a quality image of the total store based largely on the pharmacy concept.[8]

The advantages of operating a discount center including a supermarket, drug store operation, limited department store lines, etc., can be multiplied many times over in terms of the above benefits.

SUMMARY

As corporations grow larger and merge with operations foreign to their basic interests, there will exist a group of department stores, a food chain, a drug chain, a variety chain, and a miscellany of other types of outlets, under one corporate control. From this existence will emerge a mass marketing one stop, under one roof, discount shopping center.

Presently, drug stores, department stores, and supermarkets, are merchandising similar lines. This is a beginning of the evolution toward the discount center. The acquisition of drug chains by supermarkets is another form of entry into the gradual evolution toward the discount center.

The sensitivity of general merchandise expenditures to disposable personal income is a key to added profits through the promotion of the right merchandise.

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[8]"Drug Operation A Natural Food Retailing Adjunct, Some In LA Convinced," Super Market News, Vol. 10, No. 17, (April 24, 1961), pp. 1, 56.

CHAPTER VII

CONCLUSION

Not every man fits every hour and so too, not every form of distribution fits every period of time. History shows that Napoleon had his revolutions, Grant had his civil war, and so it is in retailing. Every form of distribution sooner or later is faced with the challenge of a newer form. First the cash store threatened the service stores; then the supermarket threatened the smaller stores, etc. "Now," says Ray Harb,[1] in recognizing the advent of the discount center, "all accepted forms of food distribution are being challenged by a newer form."[2]

Malcolm P. McNair warned the supermarket industry of the increasing importance of being alert to changes when he said, "it is a mistake to expect one single pattern of retail distribution to become standardized."[3]

Entry into the discount field by the super market indus-

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[1]Ray Harb is the Executive Vice President of the Cooperative Food Distributors of America.

[2]"Executives Notebook," Super Market Merchandising, Vol. 26, No. 2, (February 1, 1961), p. 7.

[3]"Cutting Distribution Cost Held Vital," "Quotable Quotes," Super Market News, Vol. 10, No. 6, (February 6, 1961), p. 38.

try and, in particular, the chain super markets is accepting the "Challenge To Change." Discount centers are the "new form" now challenging the "present forms of distribution." Discounting is the "bloodless revolution" now occurring in retail distribution.

As in any revolution, discounting sprang into existence as an insurgent and illegitimate form of retailing. Gradually, it was accepted and endorsed by a minority; later it was recognized by conventional retailers as a competitor for the "crown," the consumers' patronage. And finally, as in a successful revolution, it has attained a substantial stronghold in the market as evidenced by the relatively few discount food operations now in existence and their successful operation. And in general, success of the complete discount center movement is evident.

Throughout this entire work, reference has been made to the supermarket as being the operation that preceded the advent of the discount center. The discount center is, in essence, a rebirth of the supermarket on a larger scale. The supermarket has paved the way for history to repeat itself in the form of the discount center.

It is accepted and endorsed by a sophisticated consumer, well educated in the realm of retail purchasing, and regulated by rationality, rather than emotion. Buyers have become increasingly knowledgeable, more discriminating, and more experienced.

Not only have steps been taken in the favorable direction of the discount center by retailers and consumers, but manufacturers are also being oriented to discount centers in terms of the importance of adequate packaging and pre-selling of national brand merchandise. Controlled label merchandise is also necessary for the profitable operation of a discount center.

With corporations such as General Foods diversifying into household items such as scouring pads, starch, while traditionally being a food manufacturer, and Procter and Gamble, with their entry into food manufacturing with peanut butter, away from the traditional soap manufacturing processes, the trend toward concentration within an industry is evident. It will only be a matter of time before large corporations will seek diversification into lines even more unrelated than the examples cited above and these corporations will turn to the supermarket in its most progressive stage, the discount center, for distribution of these lines. In turning to the supermarket chains, the Kroger Company recently acquired a drug chain operation. Stop & Shop has acquired a chain of discount centers. These are the beginnings for a corporate chain seeking a profitable growth. However, it is important to reiterate that the discount center, like all preceding innovistic forms of retail distribution cannot and will not dominate the entire retail market.

The concern of industry leaders[4] for the industry's apparent Malthusian growth in terms of the number of stores existing certainly adds incentive to considering the possibility and feasibility of entering into different fields of retailing.

Discount centers offer the corporate food chains an opportunity to fill a need for a new type of retail distribution outlet which is evidenced by the few existing types of discount centers now successfully operating.

Discount centers offer the chain an avenue of expansion into successful mass marketing operations similar to the supermarket. The basic tenets, so familiar to the supermarket industry, of low margin, high turnover, is readily applicable to the discount center. The basic function of the supermarket, the mass distribution of food at the lowest possible price, is incorporated in the discount center's basic function of SELLING MORE FOR LESS AT A PROFIT. Discount centers are a CHALLENGE TO CHANGE.

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[4] See Appendix B

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APPENDICES

APPENDIX

A

STORE MANAGEMENT WORKSHOP -
National Retail Merchants Association

"<u>WHAT DOES THE CUSTOMER REALLY WANT
IN THE WAY OF SERVICE</u>

Stephen Masters, President
Masters, Inc., New York, N. Y.

Presented at the Fifth Store Management Group Workshop at the Harvard Business School, Boston, Mass., June 17, 1959.*

I am honored and, I must confess, a bit amused at being invited to participate in this activity today. The reason for this is that I can recall a period just a few years ago when many members of your organization would never allow themselves even to be in the same room with a discounter.

I also find it quite interesting to observe that the positions of the discount house and the department store seem to be reversed. Instead of the discount house being on the defensive as an illegitimate upstart, a fly-by-night and unorthodox retailer, it is the department store that now seems to be on the defensive.

Many of the orthodox habits and practices of the department store are now being challenged. In fact, as the department store adopts more and more of the discount house methods, it may soon be the discount house that is the orthodox method of retail distribution.

The discount house and other forms of what we call low-margin retailing have made great strides in distributing mass quantities of consumer goods. We now enjoy high prestige among the large suppliers. We also enjoy a vast public acceptance. And, surprisingly, the low-margin retailer even enjoys a growing

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*This is a speech presented by Mr. Stephen Masters, President of Masters, Inc., a New York chain of Discount Houses. This presentation gives a potential discounter an insight into the character of a successful operator and very vividly enumerates the reasons why Masters is a successful operator.

It is through the untiring efforts of Stephen Masters and individuals like him that discounting has risen to its present degree of acceptance, and its unprecedented mission of SELLING MORE FOR LESS AT A PROFIT.

prestige in the conservative world of finance and investment.

With reference to that point for a moment, let me note as an example that just three low-margin operations, all located in the Greater New York-New Jersey area, have demonstrated the inherent power of this form of retailing in the following manner.

In 1955, Masters, Korvette, and Two Guys From Harrison were doing an annual volume of 67 million dollars. Just three years later, in 1958, these three low-margin operations had grown to the point where they were doing 200 million dollars annually. No wonder the Wall Street community is looking with a great deal of interest at our low-margin types of retailing.

Department stores are making a determined effort to meet this challenge. Some are succeeding to a great degree. But you still face great, great problems. Most of your small increase in annual dollar sales is coming entirely from new branch stores, with relatively little increase in unit sales. Your expense ratios continue to go sky high, although the more progressive units are learning how to combat this to a small degree.

The department store is still on the defensive, however, with its customers and now its suppliers. Thousands upon thousands of customers are drifting away to the stores of low-margin operators who sell both soft and hard goods at much lower prices.

The suppliers have poured millions of dollars into new products, research, millions-indeed billions-of dollars into advertising and promotion, only to find the traffic pattern moving to a new form of retailing.

There are still some people, manufacturers, wholesalers, retailers, who think the secret of Masters' success is price-cutting. Such people have had the past 22 years to study and analyze the Masters' operation. If they had done so, they would have quickly corrected this false impression. Until recently, unfortunately for them, few took the trouble to investigate our operation.

Our methods have never been a secret. If Masters' operating methods were a secret, I wouldn't be here today. I have been invited to tell you <u>specifically</u> how we operate. And I shall do exactly that. As a matter of fact, I will hold back only one thing, our exact mark-up formula. That is my only secret.

Misconceptions About Discount Houses

As I travel around the country I occasionally hear statements from unknowing retailers that discount houses are high pressure, that they offer no services, that they don't guarantee anything, refuse to take back merchandise, and so on.

These are the charges they make to explain away our low-margin of operation. But what are the real facts?

I don't claim to speak for all discounters. In fact, I have always strongly refused to speak for any low-margin retailer except Masters. I believe that Masters' operation is unique in the United States.

However, I will say, in general, that the majority of the discount houses today are low pressure, not high pressure. They offer reasonable services. The larger ones advertise extensively. They offer the same guarantees as anyone else, perhaps more. They take back merchandise. And the majority of discount houses are located in high-traffic, high rent areas, close to major transportation facilities.

The secret of the successful discount house is efficient operation, with management able to make quick and intelligent decisions, plus hard work by everyone all up and down the line. We make decisions in minutes, not months.

In the old days a department store buyer was a man who could make quick decisions. Those were the days of profit and high unit volume for department stores. Today, the department store buyer too often acts merely as a glorified 'office boy' for his merchandising manager and buying committee.

Facts about Masters

Masters spends under 7 per cent on salaries, while the total department store spends 18% on them. But the salaries paid by Masters are higher than those of the average department store. This is no paradox or illusion. Masters' salaries are high, but we have cut out the unnecessary personnel - 92% of our employees are selling on the floor, while in the average department store less than 50% of the total employees are salespeople.

We have eliminated costly displays and display departments, window dressers, decorators, fashion coordinators, unnecessary merchandising men, superfluous vice presidents, duplicate buyers, catalogue and advertising space salesmen and the like.

Our rental cost per square foot of selling space is about one-third that of the average department store. This is not because we operate in lower rent areas, but because we eliminate costly display space and keep our non-selling space to a minimum.

Our demands for store structures are not as rigid or elaborate as those of department stores. I don't mean to imply we have bad or shoddy stores; it is just that we are more flexible in some ways. All of our stores are modern and up-to-date. Incidentally, I would like to point out that we will never open a store that is on more than one level, because only by having a one-floor operation can we operate the low-cost system we have pioneered.

While our advertising costs are about equal in percentage to those of the department store, our delivery costs are zero compared to their 1½ per cent. Many department stores, do not deliver merchandise free below a minimum purchase price such as under $3. Now, when a woman buys something for, let us say, $3.19, and takes it home under her arm, she is paying an average cost for the goods as if it were delivered to her home. This average delivery cost must be added to <u>all</u> merchandise, whether it is delivered or not, and is borne by all.

Masters has no such policy. Customers who carry their own packages are not taxed with a hidden delivery charge. Those who want delivery pay for it. Those who carry out their packages save the delivery cost.

We at Masters do not employ salesclerks in the sense that you normally think of this term. The merchandise we sell is already pre-sold to the consumer. Over $10 billion dollars worth of advertising last year has thoroughly educated the customer to product value and brand recognition.

We do employ what I prefer to call 'educated order takers.' These are people who will quickly write up a customer's order. They are very well trained in the merchandise they sell... usually far better trained than a department store sales person. They can offer information, intelligent suggestions and assistance in the proper use and care of the merchandise.

We forbid high-pressure methods and any kind of switch-selling tactics. Our merchandise is not piled up in confusion to impress the customer with quantities; it is displayed for easy selection, in orderly product classifications indicating sizes, colors, uses, voltage, horsepower and other technical details, as well as price.

Incidentally, you may be interested to know that Masters' inventory turnover is eight times a year, while the new Harvard Report shows that the typical department store has 3.85 stockturns a year based on average monthly inventories.

Studies show that $85 a square foot return on selling space is a very good figure for department stores. At Masters' 48th Street store near Rockefeller Center, in the heart of the highest rent district, we have a return of about $1,000 a square foot.

Operating Expense Compared

The operating expenses of the average department store have reached an all-time high of some 34 per cent. Compare this with Masters' costs, which are slightly more than 12 per cent and going even lower as our newer units get into full operation.

We agree with Hess Brothers, the department store, who say - and I quote Max Hess: 'The only reason $10 is a fair price is because we haven't yet found a way to sell the article for $9 or $8.'

When a customer goes into an average department store, the price she is asked to pay for any product has built into it not only the usual high overhead costs, added to the wholesale cost of the merchandise - but the price also has built into it a free delivery to Mrs. Smith, a free pickup of returned goods from Mrs. Jones, a fancy gift wrap for Mrs. Brown, a layaway for Mrs. White, an extended credit to Mrs. Green, and the salaries of lots of superfluous people.

As Sam Flanel of the N.R.M.A. told a group of department store executives at a meeting last year in St. Louis:

> 'With so much chain, variety, food, drug and discount store movement into department store merchandise lines, there are limits on what we can do to raise our mark-ons even if our customers would let us do so.'
>
> 'I think,' Mr. Flanel concluded, 'we've reached the upper limits on mark-ons.'

That was the understatement of the year, and we certainly agree with him.

Department Stores Changing

Three years ago it was unthinkable that customers should serve themselves in a department store. Now, many department stores have self-selection and some have self-service. Macy's says it has increased sales from 7 per cent to 23 per cent in some departments by self-selection and self-service.

Some old-line department stores in Manhattan have begun to advertise loss leaders without regular store services. In other words minus delivery, service and credit. All these are now 'extras' you have to pay for if any loss-leaders are still available when you get to the store.

I noted that at last year's meeting of the N.R.M.A., suggestions were made for stores to introduce the following unorthodox practices:

1. Self-selection and self-service fixtures in more departments. This has been the practice at Masters for 22 years.

2. Charging customers for deliveries, C.O.D., returns, pickups, and gift-wrapping. Masters has always charged for delivery of anything the customers could not carry. Masters never charged for warranted pickups or C.O.D. and will continue to render these services free.

3. Reducing handling costs by selling more merchandise in the factory-sealed cartons. This has been a practice at Masters for 22 years.

4. Curtail sales to employees at a discount. Masters still offers employees its merchandise at COST as an incentive.

5. Flexible pricing, according to the profitability of each individual item, a concept called 'Merchandise Management Accounting.' Masters does not use such a policy or concept. We use a set formula of mark-up which applies to all types of merchandise. When we have a good value we turn that value over to the consumer, which we think is the right thing to do.

6. Accounting in terms of profit dollars instead of percentages. We were probably the pioneers in recognizing this basic FACT OF LIFE.

7. Less wasteful use of cooperative advertising money. Cooperative advertising money, as any schoolboy can figure, comes out of your pocket or mine. In the use of money, any money, we are never wasteful.

8. Cutting costs of operation all along the line. I think department stores are beginning to learn this lesson from discount houses.

These eight points are all components of the gross markup, which can be controlled and must be controlled. We do it and so can any other intelligent merchant.

Service Given by Masters

Now, with regard to service: I want to emphasize the fact that Masters offers services equal to, and often better than, those offered by many department stores. For example:

1. All merchandise is brand new and sold in the original factory-sealed carton.

2. We allow a refund or exchange at any time up to thirty days with no questions asked.

3. Masters itself furnishes a one-year guarantee in addition to the manufacturer's warranty.

4. We maintain <u>on our own premises</u> a large, dependable repair service department--we believe we are the only store in the country rendering such a service. The reason why we do it is strictly a matter of dollars and cents.

   Our studies showed that the tortuous procedure of taking back a product, giving a receipt, sending the product to the manufacturer with proper papers and forms, waiting, picking it up, notifying the customers--cost us more in manhours, money, administration and frustration-especially customer frustration-than that system was worth. We run our repair department not as public benefactors but to save money.

5. We <u>do</u> make home deliveries, charging the customer who demands this service just what it costs us. Our service organization also installs and services major appliances in the customer's home. On major appliances, installation and service is built into the cost of the item whether Masters buys it or Macy's buys it. So here we all operate alike.

6. We forbid switch selling on the part of any of our sales help. We don't use bait advertising or loss leaders. We don't nail any appliance down to the floor. We don't advertise an item when we have only a half dozen in stock. If we advertise it we have it in quantity AND WE ADVERTISE THE QUANTITY, so no one is fooled. Only a fool fools his own customers.

   We once advertised an 8-cup percolator for $12.88. The shipment didn't arrive. We delivered a 10-cup percolator which COST US $15, and sold 3800 of them in a three-day sale.

   Once we advertised a 4-piece picnic set for 99 cents (4 cups, knives and spoons) in a flier. Now a flier or circular lasts five or six weeks and we should have know that. We sold out in two hours our stock of 1700 sets which we had received as a bonus from a manufacturer. We sold 2300 additional picnic sets at 99 cents which cost us $3 a set. This was cheaper than fooling a customer.

7. In essence: we make every item in our store, every shopping day, reflect a worthwhile saving of money to the customer. What store offers more?

8. On advertising this past year the Masters chain spent about one and a half million dollars, to build our sales and unit volume to an even higher point where it will substantially lower the cost of operation and enable us to offer even lower prices to our customers. This is the basis of the advertising profession's argument when they sell us advertising.

   And we are sold. It works.

9. We have a well-established time payment plan worked out with local banks who take our customer's paper at a very good rate. In this way our operating costs don't go up because the only people who pay for this service are the people who want it.

At this point may I say that we are also working on a charge account system for our customers. It will be done in a new way, much more economical than that of the department stores, a way in which only the participating customers will pay for the service.

The Future of Discount Retailing

We started off in business twenty-two years ago by very frankly catering to the low-income group of customers. But this didn't last too long. During the Second War, when we maintained our discount policy even on hard-to-get merchandise, our customers were upgraded into higher-income brackets.

Today, our customers come from the very highest income levels, as well as the middle and lower ones. Our customers have included world-famous people in industry, society and entertainment; we have even served a family in the White House.

Someone recently pointed out that shoppers in discount houses are among the shrewdest of all shoppers. The discount house customer tends to be somewhat young, keenly interested in buying at rock-bottom price, and very well educated in the realm of retail value.

A store does not become a 'discounter' just by putting up a sign in its window saying it is one. Some stores will meet the prices offered by a legitimate discount house on a few items. A true discounter offers a discount on every item in his store. If you were to buy all your needs for one year from Masters, you would pay less money than if you spread your purchases among many other stores.

Masters is a discount department store and the secret of its success is apparent in my definition of a discount department store: it is a streamlined, low-cost, fast-turnover, high-volume, low-margin operation in pre-sold, nationally-advertised, top-quality, guaranteed brands. May I repeat: because of our formula of mark-up from cost, every item is a value to the customer. Because of this policy we are probably the only true 100 per cent discount house in America with a one-price policy in all our stores.

Let me predict that you can expect discount retailing in the near future to take an even greater bite out of the total retail volume of consumer goods sold because:

1. We are ever improving our techniques of operating at low margins.

2. We are taking on additional categories of consumer goods such as furniture, more soft goods, and even drugs.

3. We will go increasingly into new types of distribution, such as shopping centers, and highway outlets.

4. And more manufacturers will change their policies and pricing schedules to fit into our high velocity operation.

'Fair Trade' Means Price-Fixing

A final word, gentlemen: As an American who believes in the American system of free enterprise, I would be a hypocrite if I addressed a group of retailers today and did not avail myself of the opportunity to comment on the new 'fair trade' law Congress is about to push through.

I must express my feeling of shock and disgust at the bald-faced attempt by certain Congressmen to rig retail prices so the people of the United States will have to pay at least a billion dollars more a year for merchandise and food.

The phony phrase 'Fair Trade' is the most deceitful word in the English language and the retail drug association executives who have spread the entire country with their phony propaganda on so-called 'Fair Trade' have no intention, obviously, of giving up their high-salaried jobs in their so-called trade association. Drug and pharmaceutical manufacturers furnish their goods to druggists under private labels today while giving lip service to price-fixing.

Let me give up some graphic examples of what I am talking about. Take two bottles of buffered aspirin. They are of the exact same quantity, the formula is clearly indicated on the label according to law. Both formulas are exactly the same. One is fair traded and sold for $1.23 per 100 pills. One is sold at Masters for 19 cents per 100.

Take a one-pound jar of white petroleum jelly that is fair traded at 89 cents; a one-pound jar of Masters U.S.P. white petroleum jelly, exactly the same, sells for 48 cents.

Price-fixing is a dirty cussword to the 'Fair Trade' crowd; they prefer the term 'voluntary fair trade.' That phrase is also a deception. Price-fixing is never voluntary--always coercive--no matter what name you give it.

I am appalled that the House Commerce Committee approved out of committee the bill introduced by their chairman, Congressman Harris, for 'Federal Fair Trade.' This, in my view, is the most flagrant abuse of consumer trust in congressional history. Most of the State Supreme Courts in our land have already labelled the former 'fair trade' laws unconstitutional, unfair, and unenforceable.

You have already found at your places copies of the full page ad I inserted in the Sunday New York Times and Washington newspapers. If you are interested I will gladly send you additional copies.

Competition Brings Lower Prices

Why don't you department store executives show the courage to come out, as I have, in a vigorous counterattack against this conspiracy to destroy free, competitive retailing? Let's forget we are competitors. Do you know what is happening to us AS CITIZENS when each succeeding Congressional session forces us to give up more of our rights?

The Department of Justice has come out flatly every time against this type of monopoly legislation.

Two Chairmen of the Federal Trade Commission have denounced the Federal 'Fair Trade' Bills introduced in the House and Senate.

Edward Hourey, former FTC chairman, told the American Management Association in February of this year:

> 'The short definition of monopoly power is the power to determine the market price and exclude competitors.'

The present FTC chairman, John Gwynne, told the House Commerce Committee in March of this year:

> 'The fixing of retail prices is inconsistent with the American system of free competitive enterprise and is contrary to public policy expressed by Congress in the antitrust laws since 1890.'

Competition in business is the spark plug of the American system of free enterprise. You know that better than any one else.

Fair competition is the enemy of monopoly whereever it seeks to breed. It is the enemy of low wages and low standards of living.

Competition brings lower prices. Lower prices sell more goods. Volume means profits.

If people can buy more things for less money their standards of living go up, and everyone benefits - even the tax collector.

You and I, by our efficient operations and creative showmanship help people to live better. We help manufacturers to make more and better products and to spend more money for research and development, plants and equipment, to spend more money for advertising and promotion so we can sell more goods.

Everyone benefits, and that's the way it should be.

I do hope I have contributed to a better understanding of the discount house and its relationship to the retailing revolution that is going on in the mass distribution of American consumer goods. The fruits of that revolution <u>must</u> be passed on to the American consumer in the form of lower prices, competitively arrived at in the open market."

APPENDIX

B

"The burden of a new store expansion program on the company executives is usually considered last. I think it deserves more consideration. . . A hastily developed program can be ruinous." - Milton L. Selby, then president of Safeway Stores, at the National Association of Chain Stores convention, Nov. 2, 1955.

"So we ask ourselves: Is this a maturing industry? Certainly the rise in store expense is one sign of maturity. There is also some evidence of a decline in the rates of return on investments." - Prof. Malcolm P. McNair, Lincoln Filene professor of retailing, Harvard Graduate School of Business Administration, at the Super Market Institute mid-year meeting, Dec. 5, 1956.

"We must recognize the possibility that unrestrained or misdirected expansion can prove economically unsound. In the rush to open new outlets, there is always the danger that many communities will become over-stored." - Ralph W. Burger, president of A & P, public statement, Jan. 14, 1957.

"The typical new supermarket opened in 1956 was in direct competition with two other supermarkets. The typical new supermarket opened in 1957 faces competition from three other supermarkets." - Curt Kornblau, research director of SMI, reporting on survey of new supermarkets, Dec. 9, 1957.

"There are several important areas today which deserve our keenest consideration. One is the deleterious effect upon the high volume principle of the supermarket that is implicit in some of the irrational site-selection competition we have seen in recent years." - Myer B. Marcus, executive vice-president, Food Fair Stores, SMI convention, May 26, 1958.

"As more markets spring into existence, the competitive race gets much hotter . . . Couldn't it be that we are sowing the seeds of our own destruction by building in excessive costs and raising the break-even point to a level that becomes unrealistic and impractical." - T. A. Von der Ahe, president, Von's Grocery Co., at NAFC annual meeting, Oct. 7, 1958.

"As might be expected, it always seems that 'the other fellow' - my competitor - is responsible for the over-stored condition in a specific area which is creating so much of today's pressure for sales and also is cutting into profits." - John A. Logan, then president of NAFC, at NAFC annual meeting, Nov. 30, 1960.

"Over-storing can become the national disease of the supermarket industry. All of us must seek to check this disease . . . If there are those who insist on putting up stores where they are not needed, their acts will bring them to grief." - Sidney R. Rabb, Chairman of the Board, Stop & Shop, SMI mid-year conference, Jan. 30, 1961.

"LOS ANGELES - Supermarket trade circles suggest that southern California's economic problems will hasten the demise or acquisition of marginal independents and chains in the area this year." - Les Gilbert, in Supermarket News, Feb. 20, 1961.