PRICE AND NON-PRICE COMPETITION IN FOOD RETAILING: CONSTRUCTING A BALANCE

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Abstract

The objective of this paper is to examine the transition from atomistic to oligoplistic competition within the grocery food retailing market and to locate this transition within a wider industrial economics and economic history literature. The focus of the paper is the period from the end of post-war rationing in 1954 to the passing of the Trading Stamps Act in 1964. The paper maintains that it is this decade that determined the future pattern of development within the grocery retailing market. The findings of the paper are then discussed in relation to debates over theories of the firm, British relative economic decline and contemporary competition policy.

Price and Non-Price Competition in Food Retailing: Constructing a balance.[1]

Grocery retailing after the Second World War was characterised by small scale atomistic competition, yet, by the 1970s a phenomenal change had taken place. Oligopoly had replaced an atomistic industrial structure. A handful of major companies today dominate the grocery retail trade, with the five largest groups, Sainsbury's, Tesco, Dee (Gateway), Argyll (Safeway) and Asda accounting for some 52% of food sales in 1986.[2] The multiples, retailers with ten or more stores, now account for over 75% of the market compared to 20% in 1950.[3] This paper aims to examine the origins of this growth of oligopoly. The paper focuses upon the experience of Sainsbury's and Tesco's. Today J Sainsbury plc. and Tesco plc. vie for position as the single largest food retailer in Britain by turnover and market share. In 1985 Sainsbury's overtook its major rival, with a turnover which topped £3b and accounted for 12.3% of total market share, but was itself again overtaken in 1995.[4]

Recent work on retailing has emphasised, either, firms' early establishment of competitive advantages before 1940 or the dominance of large scale retailing organisations from the 1970s onwards.[5] An implicit assumption within this work is that, from the emergence of competitive advantage to market dominance lies firms' incremental, evolutionary development. This paper wishes to challenge such an evolutionary approach. In particular, this paper suggests that the turbulent period from 1958 to 1964 was crucial to understanding the movement from atomistic to oligopolistic competition. These years saw the breakdown of resale price maintenance (RPM) within the food retailing sector in 1958, the creation of an unstable balance between price and non-price competition from 1958 through to 1963, a conflict over price discounting (following the introduction of retail trading stamps) between 1963 and 1964 and finally the establishment of a system of restricted price competition from the end of 1964.

Section two of the paper charts the origins, extent and impact of the restrictions imposed by RPM, upon food retailers. The traditional interpretation of these restrictions hindering the emergence of efficient organisations is suggested to be one-sided and therefore section two also highlights the way in which RPM could be beneficial to the development of multiple retailing.[6] Section three examines the pressures leading to the challenge over RPM and the difficulty of creating a new system of market regulation, which primarily benefited multiple retailers; namely a balance between price and non-price competition which could not be undermined by the growth of independent retailing. In section four this difficulty is shown to have brought the multiples themselves into conflict over the introduction of retail trading stamps. Finally, it is the resolution of this conflict that is suggested to have returned stability to the food retailing market.

In conclusion the paper suggests that the breakdown of RPM in the grocery retailing industry, occurring earlier than in other industries, did not reflect the emergence of competitive free markets in which prices were determined by the invisible hand of demand and supply equilibrium. Instead, the collapse of RPM was a recognition that a major shift in the balance of influence over the determination of prices, between manufacturers wholesalers and retailers, had occurred. With this change came a shift in the balance of market power between manufacturers, wholesalers, distributors and retailers. Multiple retailers were to be the main beneficiaries of these changes.

Finally, the paper examines the wider implications of the findings emerging from this study. The service sector has become an increasingly important area for research activity.[7] As the importance of the service sector within the British economy has grown, so the need for contextualising this development within a wider economic and economic history has become more pressing. This paper therefore attempts to present the evidence form this empirically based case study within a wider economic history literature. The experience of the food retailing industry between 1958-64 helps to inform our understanding in three important areas. First, the paper's finding that the motivation of firms to alter the balance of power within markets lies with firms' needs to restrict competitive pressures has implications for theories of the firm.[8] Second, this study has implications for the interpretation of the role played by anti-trust policy in Britain's post-war, relative economic decline.[9] Third, and contemporarily, the paper has direct implications for interpretations of the current conflict over loyalty cards taking place within the food retailing industry.[10]

II

As can be seen from Table One, concentration, by turnover, within food retailing was slow to rise before the ending of RPM. Winstanley has suggested that imperfect competition, including collusion between organisations of retailers and manufacturers over RPM, was a major factor in the slow development of concentration. RPM 'restricted the ability of large retail organisations to capitalise on cost advantages which they may have had by lowering prices to the consumer to increase their market share'. [11]

While RPM had its origins in the last two decades of the nineteenth century it was the interwar years that saw the widespread emergence of manufacturer inspired RPM on branded goods.[12] RPM ensured that branded goods were retailed at fixed prices by all retailers, irrespective of regional cost variations or size of purchases by retailers. Its effect was therefore to defend the smaller independent retailer from multiples retailers attempts at price cutting. RPM was monitored by associations of retailers and manufacturers and enforcement was predominantly through the use, by manufacturers, of stop-lists. Manufacturers refused to supply products to retailers who were involved in discounting, or wholesalers who were failing to enforce RPM among their retailer customers. RPM was also legally enforceable through contracts between retailers, suppliers and manufacturers.[13]

By 1930 resale price maintenance was 'well entrenched in the distribution of various classes of consumer goods', accounting for between 27-35% of all consumer goods sold in Britain.[14] However, a less conservative estimate suggested that the importance of RPM covered up to 44% of consumer goods by 1956.[15] Much of the difference over the extent of RPM lies its use within the grocery trade. Kuipers suggested RPM, defined as covering goods in which RPM was legally enforceable, affected between 18.6-21.2% of sales within the grocery trade in 1950.[16] More realistically if recommended prices were informally followed and cases of price-cutting dealt with through the stopping of supplies, even if not legally enforceable, Pickering estimates RPM covered as much as 66% of grocery goods sold in 1956.[17]

Table One

Concentration within the Grocery Provision Trade by Turnover at Current Prices.

	1950		**1961**		**1966**		**1971**	
	£'000	**%**	**£'000**	**%**	**£'000**	**%**	**£'000**	**%**
Multiples with 10 or more stores	243,992	19.95	632,393	26.90	1,056,318	36.33	1,841,889	44.31
Co-ops	284,080	23.23	488,089	20.76	485,503	16.70	549,943	13.23
Independents with less than 10 stores	694,646	56.81	1,230,229	52.33	1,365,834	46.97	1,764,655	42.46
Total	1,222,717	100	2,350,711	100	2,907,655	100	4,156,487	100

Sources: Census of Distribution 1961 tables 1 & 3, and 1971 tables 1A & 3.

The impact of RPM and the subsequent reduction in price competition was to encourage firms to compete on non-price factors, in particular service. Service had always played an important part in gaining customer loyalty, and continued to even after the demise of RPM.[18] The two main areas of non-price competition lay in the use of free delivery and credit.[19]

The reduction of competitive pressures on retailers was further reinforced by the impact of wartime and post-war rationing. Rationing was administered, and supplies to stores allocated, on the basis of the number of consumers registered at each store. Government concern over the possibility of an outbreak of competition prior to the introduction of rationing led the Board of Trade, in 1938, to propose an 'immediate temporary agreement' on prices.[20] As a result Jeffreys has noted that the industrial structure of retailing during the war and up to 1950 became frozen, highlighted by 'the virtual disappearance of bankruptcy among firms engaged in wholesale and retail trading'.[21]

Winstanley and Jeffreys are therefore correct to emphasis the uncompetitive nature of the industry. However, this cannot be suggested to have, automatically, been to the detriment of multiple retailers. The lack of price competition within the grocery sector did not in fact prevent larger multiple firms from emerging. The number of firms with 25 or more branches grew continuously from 58 in 1920 to 83 in 1930 and to 89 by 1939.[22] Firms such as Tesco, which stocked branded products and maintained RPM, could emerge as a regional multiple in this period. The first Tesco's store did not open until 1931. Its opening marked the establishment of Tesco in grocery retailing as a firm that broke RPM. However, in order to continue guaranteeing supplies, Tesco realised it would need to abide by RPM and so by 1934 Tesco, now with forty stores, had accepted RPM.[23] An alternative free-rider approach was also available under RPM. A provision dealer selling fresh, unpackaged goods, such as Sainsbury's, could utilise reductions in price competition to develop a more vertically integrated structure, expanding into dry packaged groceries.[24] Sainsbury's expanded its own-brand grocery and provision products on the basis that under RPM they could be sure margins would not be threatened by price competition. Between 1920 and 1939 Sainsbury's also internalised all distribution to stores, as well as successfully increasing its number of stores from 129 to 255.[25]

The prevention of intense price competition provided the multiple firm with a relatively secure business environment in which investment could be made, either, in company activity linked to head office functions such as accounting procedures, purchasing and distribution, or alternatively, in the vertical integration of production and manufacturing processes, as well as increasing the number of outlets. The creation of organisational capabilities by multiple firms was therefore underwritten by their acquiescence to RPM and it was not until the multiples had fully developed their internal organisational capabilities that RPM could be successfully challenged.[26]

III

If the food retailing industry was frozen before 1954 then after 1954 a thaw rapidly arrived. Government concern to raise productivity levels encouraged the adoption of American retailing techniques.[27] In particular, self-service followed by supermarket retailing, along with the adoption of cash-and-carry and voluntary chains within the independent sector, was to lead to a fundamental re-structuring of the industry.

The American experience of self-service, with more rapid rates of stock turnover leading to lower levels of breakages, spoilage or theft per unit of stock and suggested increases in average purchases of up to 40%, had been closely watched in Britain.[28] These advantages, combined with the continuation of domestic problems including staff shortages and rising real wage costs, made the introduction of self-service into Britain only a matter of time. Thus by 1957 while only 2.6% of all food shops had been converted to self-service they nevertheless accounted for 10.1% of food sales.[29] It was the Co-op's which pioneered and dominated this movement towards self-service stores in Britain, continuing to operate almost 50% of all self-service stores as late as 1960.[30]

While the Co-op dominated the establishment of self-service it was the multiple retailers which established supermarket retailing within Britain. Supermarket retailing, incorporating self-service operations in stores of over 2,000 sq.ft., required large scale capital investment unavailable to de-centralised Co-op's or small scale independents. As a result multiple retailers led the introduction of supermarkets operating 1,080 by 1964, 66% of the total opened.[31] These larger stores required greater numbers of staff, although increasing stock turnover ensured retailers were able to achieve efficiency gains. Stores in the United States employed more than twice the average number in Europe and a third more than in Britain.[32] The impact of self-service and supermarket retailing on the number of stores open and employment was dramatic. Between 1961 and 1971 the number of Co-op owned grocery and provision stores fell 44% while employment fell 34%. Within the independent sector a similar pattern emerged where the fall was 26% and 12% respectively. In contrast, however, increasing employment within supermarkets ensured that while the total number of multiple owned grocery and provision stores fell by 34% employment actually rose by 46%.[33]

With supermarket retailing established the separate elements creating the organisational capabilities of multiple retailing were all in place. The interwar years had seen the building of centralised head office functions including purchasing, capital raising and distribution, along with manufacturing and processing capabilities in the case provision dealers turned grocers such as Sainsbury's. These were combined with the post-war development of large scale, capital and labour intensive, high productivity supermarket retail outlets. The large-scale capital investment necessary for the development of new larger stores also created new barriers to entry for competitors. From the end of the 1950s new physical barriers to entry based upon investment in retail outlets became the defining strategy for the development of organisational capabilities among multiple retailers.

Despite the advantages of economies of scale available to the multiples using supermarket retailing the independents were to soon discover that, using American voluntary chains and cash-&-carry methods, they too could achieve similar organisational capabilities to those of the multiples. The physical barriers to entry were not as difficult to over-come as the multiples believed. The development of cash-and-carry wholesaling allowed retailers to absorb transport costs. Still more importantly, the emergence of voluntary chains, provided the independents with the ability to undermine the multiples' economies of scale and physical barriers to entry.

Voluntary chains first appeared in Britain in 1954 and were mostly organisations of independent wholesalers linked to groups of independent grocers. The chains encouraged a loyalty between wholesaler and retailer and ensured, through compulsory membership of grocers' associations, that retailers agreed not to compete too vigorously with other members of the chain.[34] The chains also encouraged independent grocers to adopt self-service organisation by providing capital for the conversion of stores. Chains linked to wholesalers such as Spar had over 3,000 members.[35] The size of these groups allowed them to undermine many of the centralised head office functions enjoyed by the multiples such as economies of buying and capital raising. As early as 1963 voluntary groups, either wholesaler or retailer inspired, were estimated to be responsible for 28.6% of all grocery sales, 57% of sales within the independent sector.[36]

The success of the re-vitalised independent sector can be seen from the halting of the multiples movement towards concentration in the Greater London area in the first half of the 1960s (see Table Two). Greater London represented the single largest geographical region for grocery sales, accounting for over 13% of national sales. Greater London was also the most advanced region with the highest levels of concentration by turnover. Nationally the multiples were not to achieve the levels of concentration achieved in Greater London by 1950 until the late 1960s.

Thus the challenge to RPM needs to be understood not simply in one dimension, as the victory of a more efficient form of retailing over restrictive manufacturers and an inefficient independent sector, but as a response by the multiples to a competitive threat from the independent sector itself. It was this threat that forced the multiples into challenging the structure of the food retailing market if they were to maintain their competitiveness. The multiples were to discover in the process, however, that the removal of rationing and the ending of RPM was not itself enough to re-establish their competitive advantage against a competitive independent sector.

The impact of the challenge to RPM can most clearly be understood by examining changes in food prices across the whole industry. Table Three shows indices for retail food prices and wholesale inputs to the food manufacturing industry relative to wholesale outputs of the food manufacturing industry. They clearly indicate the changing balance of influence over the determination of prices over the period.

After the ending of rationing in 1954 food manufacturing input prices fell almost continuously relative to output prices. The explanation for this is two fold. First increasing processing of foodstuffs by manufacturers was leading to a higher value added content in manufacturing output.[37] Second, real wholesale input prices fell after the removal of rationing and did not regain their 1954 level until 1964. This occurred despite the removal of agricultural subsidies from central government which fell by 77% in real terms.[38] If farmers were to re-coup their lost subsidies we would expect wholesale input prices to be rising. That this did not happen suggests that farmers and producers of fresh produce were losing power within the market to determine farm output prices. Influence over prices lay with processors and wholesalers.

Table Three also highlights a growing gap between retail food prices and food manufacturing output prices between 1954 and 1961 suggesting that retailers were increasingly important in the determination of retail food prices. The collapse of RPM in grocery retailing is detectable here in the clear fall of wholesale output prices relative to retail prices between 1957 and 1958. During these two years a sudden adjustment was made in the power to determine prices between manufacturers, wholesalers and retailers.

Retail prices relative to manufacturing output prices however fell between 1961 and 1964. While collective RPM was prevented after 1956 many firms were able to continue to use individual RPM agreements, even after 1958, to maintain prices.[39] The period 1961-64 therefore highlights the inability of the multiple retailers to sustain their new found power to determine retail prices against manufacturers and wholesalers. Falling gross margins for retailers reflected the emergence of the competitive threat posed by the voluntary chains of independent stores. Thus 1961-64 also highlights the inability of multiple retailers to turn their newly established power to determine prices into a sustainable competitive advantage against other retailing organisations.

The development of larger supermarkets as a physical barrier to entry and the demise of price maintenance was not as successful in re-establishing the competitive advantages the multiples had anticipated. Manufacturers had proved capable of limiting the degree to which retailers could determine prices while the efficiency gains based upon economies of scale were not as forthcoming as had been assumed.[40] It was these twin pressures which brought the multiples themselves into conflict with one another over retail trading stamps from October 1963.

Table Two

Concentration within the Grocery Provision Trade in Greater London by Turnover 1950-71

	1950		1961		1966		1971	
	£'000	**%**	**£'000**	**%**	**£'000**	**%**	**£'000**	**%**
Multiples with 10 or more stores	61,366	37.46	184,102	58.52	247,570	60.05	355,096	62.24
Co-ops	24,747	15.11	34,922	11.10	37,371	9.07	53,807	9.43
Independents with less than 10 stores	77,700	47.43	95,567	30.38	127,314	30.88	161,645	28.33
Total	163,813	100	314,591	100	412,255	100	570,548	100

Sources: Census of Distribution 1950, Vol. 2, table 10, 1961, Part 7, table 1 and 1971, Part 8, table 2.

Table Three

Price Indices for the Food Industry (1954 Prices)[41]

Year	Real Retail Prices Relative to Real Manufacturers Output Prices	Real Manufacturing Input Prices Relative to Real Output Prices
1948	100.8	
1949	97.8	
1950	93.3	
1951	99.1	
1952	100.0	
1953	97.9	
1954	100.0	100.0
1955	103.9	94.5
1956	103.1	94.0
1957	105.2	90.8
1958	109.6	92.2
1959	108.8	92.2
1960	108.0	89.9
1961	109.3	86.8
1962	107.0	85.8
1963	106.7	87.2
1964	106.1	87.9
1965	107.0	84.6
1966	109.1	84.3
1967	109.8	84.1
1968	109.6	84.3
1969	112.5	84.0

Source: Annual Abstract of Statistics, 1957, tables 342 and 349, 1962, tables 362 & 374, 1970, tables 386, 387, and 388.

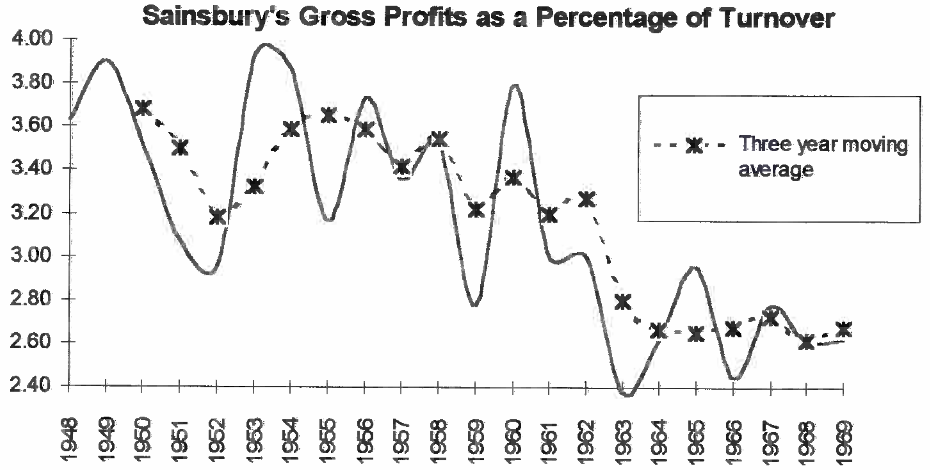
IV

Retail trading stamps, again originating in the United States, were a method of building customer loyalty. Stamps would be given with each purchase and could be collected by customers and exchanged for a wide range of consumer durables, at a later date, from the stamp-issuing company. In Britain the largest of the stamp-issuing companies was Green Shield with over 60% of the market in 1963.[42] Trading stamps first appeared in small independent grocers' stores in 1958 but began to spread rapidly. After the collapse of RPM multiple retailers had established a balance between price and non-price competition. The introduction of trading stamps was clearly understood as a threat to this balance and as a result in 1961 the National Association of Multiple Grocers organised an unwritten agreement boycotting the use of stamps amongst the larger multiples.[43]

The multiples opposition to trading stamps derived from two key considerations. Stamps raised costs for retailers, who had to purchase them from the stamp-issuing company at a cost of between 2-2.5% of sales, which would then need to be recovered from customers.[44] An increase in retailers' prices could only be overcome if the issuing of stamps resulted in higher turnover counteracting the effects of lower margins. Thus the debate between retailers centred on whether or not increases in aggregate turnover could be generated for the trade, or whether the issuing of stamps would simply redistribute existing trade. In the latter case, stamps would represent an added cost, eating into profit margins, if their use spread to all retailers.[45] The second consideration arose over the degree to which stamps offered a discount on a wide range of consumer goods, and in so doing threatened to undermine the continuation RPM on branded products outside of the grocery trade.[46] Manufacturers were also concerned that stamp-issuing retailers were effectively offering discounts on their products and that this would in turn lead to pressure, from non-stamp issuing retailers, to lower wholesale prices in order to maintain retail margins.[47] Thus concern over the use of trading stamps spread well beyond the grocery trade and into all areas of retailing. Effectively the issue became one of which area of the trade would be faced with absorbing the cost of trading stamps?

The multiples' boycott of stamps held until the middle of 1963, when, in August, the Fine Fare group announced that it would be introducing stamps in November. In October 1963 both Pricerite and Tesco pre-empted Fine Fare and introduced stamps. From late 1963 through to the end of 1964, a veritable war between pro-and anti-stamp supporters raged throughout the trade. The explanation behind this breakdown of the boycott can be clearly understood from an examination of the gross profit margins for a multiple like Sainsbury's in Figure One. The period from 1962-64 saw a rapid and permanent reduction in profit margins. In other words, at exactly the same time as capital was required for new investment to establish self-service and supermarket stores the multiple retailers profit margins were being squeezed by competition from the independent sector and from continuing restrictive practices within the food trades. Thus the decision to abandon the stamps boycott was brought on by a profit squeeze.

Figure One
Sainsbury's Gross Profits as a Percentage of Turnover



Source: J. Sainsbury Ltd, Annual Report and Acounts

In response to the breakdown of the multiples boycott Sainsbury's initiated and co-ordinated an anti-stamp campaign. As early as March 1963, Sainsbury's had anticipated a breakdown of the anti-stamp boycott. As a result the company commissioned the advertising agency Mather & Crowther to develop an action plan. Their report was to provide the basis of the anti-stamp campaign over the next two years. The Mather & Crowther report presented two alternatives; either a consortium of 'virtually all the major retailing groups' should be organised, including grocers, garages, chemists, variety stores etc. or a 'specifically Sainsbury's anti-stamp campaign' should be developed. The report recommended that for the 'opportunistic' anti-stamp advertising, aimed at the housewife, to be effective it should be along 'emotional (rather) than on rational lines' and economic arguments for the 'rational-minded' should be aimed at the 'pub-economist'.[48]

That Sainsbury's considered the emergence of trading stamps as a great threat can be seen from the fact that the company adopted both options: a collective and an individual approach. Sainsbury's budgeted £80,000 for an initial eight-week campaign against stamps, beginning in November 1963. The company had originally been considering spending £120,000 on the original campaign.[49] The expenditure on the anti-stamp campaign was far in excess of Sainsbury's usual advertising expenditure, which further emphasises how important the defeat of trading stamps was to the Sainsbury family.[50]

Sainsbury's, through, Lord (Alan) Sainsbury, also formed the Distributive Trades Alliance, (DTA), in order to co-ordinate opposition to the emergence of trading stamps amongst all sectors of the retail industry. The DTA instigated a campaign against the bakery products of Associated British Foods, owner of the stamp-issuing stores, Fine Fare. This boycott, although eventually condemned by the Restrictive Practices Court in 1965, forced Fine Fare to abandon the use of trading of stamps within twelve months.[51] One American-based stamp-issuing company claimed that the DTA's activities were such that, if it operated within the United States, 'it would have long since attracted the attention of the Federal Trade Commission'.[52] Retailers of consumer durables also threatened to break RPM agreements unless manufacturers took action to prevent their branded goods being sold in stamp-issuing stores.[53]

Manufacturers were particularly concerned over the introduction of trading stamps as a way of undermining margins. As early as May 1963, the Food Manufacturers' Federation, (FMF), were in contact with Lord Sainsbury for help in putting the manufacturers' point of view.[54] The FMF urged larger manufacturers to use 'consultation and persuasion behind the scenes.' and decided to 'advise members of the inherent dangers of stamp trading and to recommend no participation in stamp schemes for manufacturers'.[55] Larger manufacturers quickly organised boycotts of stamp-issuing retailers. By December 1963, Cadburys (despite court action from Tesco and Victor Value), Rowntrees Mackintosh, EMI and Decca, Gillette, Imperial Tobacco Co., Distillers Co. and tyre manufacturers' including Dunlop, Firestone, Avon, Goodyear and Michelin were all involved in boycotting retailers.[56]

The significance of the war over retail trading stamps lies with the conflict that was emerging between the continuation of a market characterised by competition based upon a combination of price and levels of service and a market characterised by simple price competition. To what extent should price competition be regulated within the industry? The Sainsbury family had consistently opposed resale price maintenance, yet were prepared to invest considerable amounts of managerial time and money in the defence of the status quo within grocery retailing and resale price maintenance outside grocery retailing.

Throughout, Sainsbury's claimed that opposition to trading stamps lay with the increasing costs which consumers would pay as the costs of stamps was passed on, yet the evidence for this was weak. Studies in the 1950s in the United States by the Department of Agriculture across 21 cities showed that wide variations of price changes existed between stores that did and did not issue stamps. However, the study did recognise that, while on average prices in stamp-issuing stores had risen faster than in non-stamp-issuing stores, the rise had not been enough to counteract the discount received when stamps were redeemed. Another US study in the 1960s suggested that only in a stamp saturated market could the use of stamps lead to an increase in prices[57] In Britain the claim that prices would be effected was similarly disputed. In 1964 an Institute of Economic Affairs publication argued that 'there is little ground for the argument that the cost of trading stamps must ipso facto be transferred onto the consumer in the form of higher prices'[58] and in 1965 a Consumer Association investigation across 120 stores over four months concluded that prices were not effected.[59]

In reality the emergence of trading stamps threatened to intensify price competition in the grocery retail trade and it was this that Sainsbury's and other multiple retailers feared. Sainsbury's recognised that, while, the demise of RPM further weakened manufacturers' ability to determine prices, there was a need for co-operation within the industry as a whole to prevent price competition from becoming too intense. The multiples wished to establish a market characterised by restricted price competition.

In 1964 the Trading Stamps Act was passed which, although not as far reaching as the bill initiated by Lord Alan Sainsbury, regulated the use the trading stamps and ensured stamps monetary value was printed on them.[60] Data collected on the issuing of trading stamps in the 1971 Census of Distribution suggests that the DTA campaign can be considered to have been relatively successful. In 1971 only 39 multiple grocery organisations with 3,144 stores were issuing stamps. Similarly among independents only 5,676 firms with 5,984 stores were providing stamps.[61]

Conclusion

This paper has charted the movement away from RPM towards restricted price competition within the grocery retailing trade. It has maintained two essential points. First the movement away from RPM was problematic. Multiple retailers were not naturally against price maintenance, instead multiple retailers were keen to ensure an acknowledged balance between price and non-price competition was established. The explanation for this was suggested to lie primarily in the difficulties firms faced in making investment within a market characterised by the uncertainty of price competition and low profit margins. Second, once RPM was abandoned the trade had a series of difficulties in regulating competition. Multiple retailers faced a rear guard action of manufacturers through the continuation of restrictive practices at the same time as their competitive advantage over independent retailing was being undermined, due to the adoption of voluntary chains and cash-and-carry methods. The economies of scale brought by centralised head office functions in purchasing, wholesaling and in Sainsbury's case manufacturing, combined with multiple retail outlets did not present insurmountable barriers to an independent sector willing to incorporate American retailing techniques.

Eventually, the multiple retailers were successful in creating a market environment which shifted the balance between price and non-price competition further towards price. Stamp issuing was restricted within the grocery trade and the multiples were able to re-establish their competitive advantage over the independent sector, leading to a rapid increase in concentration levels. The cost of establishing this new framework was an acceptance of significantly lower gross profit margins, within the multiple retailing sector, which in turn forced the multiples to re-examine, yet again, their methods of operation. The 1960s saw a widening selection of food products sold within stores including a growth of own-brand products, the introduction of non-food items, a new movement towards expanding the use of pre-packaging for groceries and provisions and further developments in logistics and distribution leading to reduced stock holding.[62]

Finally, it is possible to examine some of the wider implications of this papers findings. The theory of the firm acts as a central theoretical component for business history and industrial economics.[63] An examination of the internal strategy and structure of business organisation is understood as the mechanism for understanding commercial success and longevity.[64] The emphasis of this study is to suggest that the determinant of success lies as much in how firms alter their environment as much as how they alter themselves. Such a finding helps to explain why it is that firms so different in origin as Sainsbury's and Tesco, initially adopting different approaches to ownbrands or trading stamps, could nevertheless emerge as dominant players within the food retailing industry.

Second, this paper maintains that restrictive practices and wider business co-operation was not simply detrimental to competitiveness. Economic historians have tended to view the shift from cartels and restrictive business practices towards price competition as a major break in the development of business strategy. As a result the 1956 Restrictive Trade Practices Act and the 1964 Resale Prices Act followed by the 1965 Monopolies and Mergers Act played a crucial role in breaking British business's commitment to anti-competitive agreements.[65] This view is so widely held that one mainstream explanation of Britain's relative economic decline, during the golden age from 1951-73, is of the British government's failure to introduce effective competition policy.[66] Neo-classical economics has thus treated the differences between restrictive business practices and price competition as one between black and white.

One recent history of British competition policy has, in contrast, suggested that the delay in introducing legislation derives not simply from business's commitment to restrictive practices but from British multinationals lack of need for such legislation.[67] The timing of the introduction of anti-trust policy was dependent upon the needs of multinational capitals requirements for open markets, both domestically and internationally. In other words British business abandoned restrictive practices as and when it suited larger firms. The abandonment of restrictive practices in favour of price competition thus reflects a difference between shades of grey, rather than one between black and white. This paper supports a view that maintains the challenge to RPM represents an abandonment of particular restrictive practices, rather than a fundamental break with restrictive practices or business co-operation per se.

Lastly, nineteen ninety five saw the emergence of a new battle for market share, between the major retailers, within the food retailing sector. Tesco's introduction of the Clubcard loyalty scheme, awarding discount vouchers after the accumulation of points was followed by other major retailers, with Sainsbury's launching its own loyalty card.[68] This modern form of trading stamps has two functions. Like trading stamps they represent an attempt to increase customer loyalty. Unlike trading stamps they provide retailers with uniquely detailed market information on individual purchasing patterns and behaviour which would be impossible to attain in any other way.

The impact of these 'electronic Green Shield Stamps', as Sainsbury's initially dubbed them, is almost certainly to be very different to the introduction of retail trading stamps. The increase in levels of concentration within the trade since the 1960s makes the development of a 'saturated market' more likely, allowing the costs of loyalty cards to be more easily passed on to consumers. More importantly still, unlike the 1960s, the introduction of loyalty cards represents a shift away from price competition. Large scale investment, in out of town stores in the 1980s, has led firms to be acutely conscious of the possibilities, and dangers, from intense price competition. As Tesco's Chairman recognised as early as 1984 'a very low price advertised today is bettered within 24 hours by a competitor. This is all very well short term, but in the long term it cannot be in anyone's interest.'[69] For the major food retailers in Britain today the balance between price and non-price competition may well have gone to far. Loyalty cards in the 1990s therefore reflect a movement back towards service as multiples attempt to construct a new balance. Any shift further away from price competition will clearly have implications for governments consideration of competition policy. Already there are calls for the break-up of the large multiple retailers including Sainsbury's and Tesco.[70] The spread of loyalty cards is more than likely to increase these calls.

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[3] T. Lang and H. Raven, Off our Trolleys, Institute of Public Policy Research, (1995), p.37
[4] IGD, op.cit, p.94.
[5] G. Jones and N.J. Morgan (ed.), Adding Value, (1995) and G. Akehurst and N. Alexander, Retail Structure, (1996).
[6] Multiple retailers are defined in the Census of Distribution as firms with ten or more stores while independent retailers are defined as firms fewer than ten stores.
[7] See P. Scott, 'The Property Market and the Growth of Multiple Retailing, 1919-39', Business History, Vol.36, No.3, (1994), L. Sparks, 'Food Retailing in Great Britain' in R.S. Tedlow and G. Jones (eds.), The Rise and Fall of Mass Marketing, (1993) and R.S. Tedlow, New and Improved, (Oxford 1990).
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[12] B.T. Bauer and B.S. Yamey, Markets: Market Control and Marketing Reform, (1968), pp.273-301.
[13] See B.S. Yamey (ed.), Resale Price Maintenance, (1966) and J.F. Pickering, Resale Price Maintenance in Practice, (1966) for detailed discussion on the operation of RPM.
[14] Yamey, ibid., p.253.
[15] Pickering, op.cit., p48.
[16] J.D. Kuipers, Resale Price Maintenance in Britain, (Washington 1950), quoted in Yamey, op.cit., p.254.
[17] Pickering, op.cit., p. 49.
[18] F. Livesey, 'Retailing', P.S. Johnson (ed.), The Structure of British Industry, (1980).
[19] One survey by the National Association of Multiple Grocers carried out in 1959 suggested that only ten out of forty six multiple retailers did not deliver orders below £1 in value and the 1957 Census showed that retailers, excluding the Co-operative societies, were owed some £54m by customers in credit. Quoted in W.G. McClelland, Costs and Competition in Retailing, (1966), pp.241-244.
[20] J Sainsbury Archive (hereafter JS Archive), SWAR2, Report of meeting between Mr A. Sainsbury and Mr R.J. Sainsbury with Mr Lloyd of the Board of Trade, 16 September 1938.
[21] J.B. Jeffreys, Retail Trading in Britain 1850-1950, (Cambridge 1954), p.103.
[22] Ibid., p.137.
[23] D. Powell, Counter Revolution, (1991), pp. 33-41.
[24] B. Williams, 'Multiple retailing and brand image', Jones and Morgan, op.cit.
[25] B. Williams, Best Butter in the World A History of Sainsbury's, (1994), pp. 74-75. Note that the number of stores stated in the text of the book do not correspond to the figures given in the table on p.219 which state the number of stores as 124 in 1920 and 249 in 1940.

[26] This has also been suggested to be the basis for the challenge of Japanese supermarkets to price maintenance at the same time. See M. Tatsuki, 'The Rise of the Mass Market and Modern Retailers in Japan', Business History, Vol.37, No.2, (1995), p.83.
[27] Anglo-American Council on Productivity, Retailing, (1952) and Anglo-American Council on Productivity, Packaging, (1950).
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[31] Ibid., p.9.
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[33] Census of Distribution and Other Services, Part 1, 1971, table 3.
[34] C. Fulop, Buying By Voluntary Chains, (1962), p.41.
[35] The Grocer, 30th October 1965, p.76.
[36] Pickering, op.cit., p.136.
[37] Akehurst and Alexander, op.cit.
[38] National Income and Expenditure Tables, table 53, 1966 and table 42, 1961.
[39] In 1959 200 agreements affecting the food industry were registered as still operating with the Registrar of Restrictive Trading Agreements. See N. Cuthbert and W. Black, 'Restrictive Practices in the Food Trades', Journal of Industrial Economics Vol.VII, 1959-9, p.35.
[40] R.P.R. Tulley & R. Hicks, 'Economies of Scale in Supermarkets', Journal of Industrial Economics, Vol.XIX, 1970-1.
[41] Annual Abstract of Statistics, 1957, tables 342 and 349, 1962, tables 362 & 374, 1970, tables 386, 387, and 388.
[42] M. Corina, Pile it High Sell it Cheap, (1972), p.24.
[43] Powell, op.cit., pp. 104-111.
[44] McClelland, op.cit., p.270.
[45] See Daily Mail 6th November 1963 for debate over the merits of trading stamps between Lord Sainsbury for the anti-stamp Distributive Trades Alliance and Leslie Carter for the pro-stamp issuing company Associated British Foods.
[46] The Co-op's use of a dividend payment had also been opposed by manufacturers on this basis, although it was eventually accepted that the dividend was more analogous to a share dividend since it was a payment and not a discount on specific goods.
[47] Corina, op.cit., p.27.
[48] JS Archive, HIST/7, Preliminary Proposals for an Anti-Stamp Campaign, 4th April 1963.
[49] JS Archive, HIST/7, Letter from J.D. Sainsbury to A. Tennant of Mather & Crowther 20th June 1963.
[50] Sainsbury's advertising expenditure for the first nine months of 1963 totalled under £24,000. See The Grocer, 4th April 1964, p.32.
[51] The Grocer, 19th June 1965, p.34 and Financial Times, 26th September 1964.
[52] Financial Times, 15th October 1964.
[53] Observer, 15th November 1963 for threats from the John Lewis Partnership.
[54] Food Manufacturers' Federation Archive (Hereafter FMF Archive), Executive Committee Minutes, Vol.11, 63/87 Stamp Trading, 28th May 1963.
[55] FMF Archive, Executive Committee Minutes, Vol.11, 63/148 Trading Stamps, 17th September 1963 and 63/192 Trading Stamps, 26th November 1963.
[56] Sunday Telegraph , 8th December 1963.

[57] Quoted in D. I. Padberg, op.cit., p.157. This is an obvious difference between the conflict between retailers over trading stamps in 1963 and over discount cards in 1996, given the increased levels of concentration within the trade.
[58] C. Fulop, The Role of Trading Stamps in Retail Competition, (1964), p.65.
[59] See The Grocer, 3rd July 1965 p.34.
[60] It is this act that regulates the current loyalty cards.
[61] UK Census of Distribution, 1971, Supplement, table 49.
[62] See L. Sparks, 'Delivering Quality: The role of logistics in the post-war transformation of British food retailing', in Jones and Morgan, op.cit.
[63] K. Cowling and R. Sugden, 'Behind the Market Facade: A reassessment of the Theory of the Firm', (Unpublished Paper, 1994), Coase, op.cit., and Casson op.cit.
[64] A.D. Chandler, Strategy and Structure, (Cambridge MA 1962) and A.D. Chandler, Scale and Scope, (1990).
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[66] N.F.R. Crafts, 'The Golden Age of Economic Growth in Western Europe, 1950-73, Economic History Review, No.3, (1995).
[67] Mercer, op.cit.
[68] Sunday Times, 16th June 1996.
[69] Chairman of Tesco speaking in 1985. Quoted in J. Senker, 'Technology and competitive strategy in food retailing', The Strategic Management of Technological Innovation, ed. R. Loveridge and M. Pitt, (Sussex 1990), p.86.
[70] Lang and Raven, op.cit., p.37.