

## THE CONSUMER LOOKS AT DISCOUNT HOUSES

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A discussion of the discount house and the practice of discounting at retail might well be introduced by a quotation from a dealer in San Francisco, who - when asked by a customer about a discount, retorted, "What are you, a Communist?"

Just what is a discount house? We know what it has been called, a Frankenstein monster, an illegal price cutter, a black market of sorts, bootleg competition, quasi-wholesale outlet, backdoor seller, discount menace, discount disease, legitimate bootlegger, illegitimate bootlegger, per-cent-off-list chisler, upstairs retailer, speak-easy type of operation, and profit pirate.

The Business Division of the Bureau of the Census has not defined the term, discount house.

The United States Senate Select Committee on Small Business has not developed a definition for it.

One of the largest discount houses in the country states, "We do not consider ourselves a discount house."

On the other hand a very definitive definition has been developed: A discount house is any retail outlet selling fair trade merchandise below fair trade prices.

An all inclusive definition is that all retail stores are discount houses since they all offer discounts from list prices at times.

The definition which has been developed and which we shall use is that a discount house is a retail outlet whose policy is to sell nationally advertised trademarked and branded goods below the suggested list price or fair trade price to all consumers on a continuing basis.

#### Historical Background

In the late 1800's the introduction of the mail-order house met with a great deal of resistance from the vested interest groups in retailing, and was practically attacked as being un-American, but the mail-order house has survived and is an accepted institution in retailing today.

In the 1930's the introduction of the chain store system met with a great deal of resistance from the vested interest groups again, and many state laws were passed in attempts to block its growth, but the chain store system has survived and is an accepted institution in retailing today.

In the past decade the discount house, as we know it today, has developed, and this new form of competition has been soundly condemned by the vested interest groups in retailing. At this time the discount house

seems to have made its niche in retailing and will not be dislodged easily. Yes, some discount houses have failed, but other types of retail outlets have also failed.

#### How Do Consumers Feel About Discount Houses?

Where does the consumer fit into this picture of the discount house? As is recognized, it is the consumer in his decisions as to where to purchase who decides what stores and what types of stores are to continue in existence.

The number of discount houses and their volume of business cannot be developed accurately. But, if the following educated estimates are very accurate, then consumers are casting many votes in favor of the discount house.

The National Directory of Discount Dealers lists 2,579 names and addresses of discount houses. The reliability and accuracy of this Directory are up for scrutiny, but at present it is the only such compilation.

Another estimate has placed the total number of discount houses at between 6,000 and 10,000.

The National Retail Dry Goods Association, after a survey of its members, concluded that there were at least 10,000 discount houses of all types doing a business of between \$3 and \$5 billion.

In the greater New York City area there are estimated to be 1,000 discount houses.

The estimates on the volume of business of the discount houses have ranged from \$250 million to \$10 billion, and the Chamber of Commerce of the United States released a Discount Selling Report which concluded that discount sales at retail total well over \$25 billion per year. This figure included sales at discount as well as sales at discount houses.

From these figures we can conclude that the consumer is buying at discount from the discount houses.

The success of the "big three" discount houses, Polk Bros. of Chicago, Masters and Korvette of New York City, is evidenced by the fact that each one is supposed to have done well over \$50 million worth of business in 1956. A visit to each of these discount houses may well be called consumer education of an empirical nature.

#### Growing Consumer Acceptance

Consumers seem to have accepted the discount house as part of their shopping pattern. The sales of discounted commodities and sales through discount houses were not foisted upon the consumer; he sought out these lower prices and these low-price retail outlets; but there are still areas of hesitancy and question in the mind of the consumer about the discount house.

To a great degree the American consumer has been buying in what he believed to be a one-price market - all consumers paying the same price at the same time for the same good. Therefore, the bargaining atmosphere has been somewhat foreign to the American market. The consumer would not consider asking for a discount, it runs counter to his principles, and yet the very same consumer may be doing that very thing as a purchasing agent for his company. In other words he would bargain for a discount for his company, but not for his home.

The dissemination of information about the discount houses, discount house catalogues, and discount buying is making the consumer more and more aware of the place of bargaining and discounting at retail. Fortune Magazine stated that anyone who bought at list price was either naive or stupid.

#### Questions Commonly Asked about Discount Houses

The questions which disturb the consumer the most with regard to discount houses are questions about the quality of the merchandise handled, the guarantee, the service, and the reliability of the seller. These questions should also be in the mind of the consumer when buying at any retail store. The reliability of the seller does not depend upon his type of selling, but upon his character. Dishonest, unreliable sellers are to be found in all types of retail outlets, just as honest and reliable sellers are to be found in all types of retail outlets including the discount house. The question might well be raised as to who is the honest seller - the so-called legitimate jeweler selling an Omega wrist watch for \$150, or the discount merchant who sells it for \$100?

With respect to the quality of merchandise, both the legitimate retailer and the discount house operations will be determined by the character of the owner. In many cases merchandise sold by the discount house is sold in company-sealed cartons, while the legitimate store frequently sells the item which has been on display. Those retailers who wish to remain in business cannot misrepresent their merchandise very long and continue in business.

"The inability to offer service ultimately will eliminate the current menace of the discount house." That was the statement of President Harry H. Meyer, National Retail Hardware Association. It has been said that price appeal does not last long and that services then reappear as a part of competition. This early demise for the discount house for its lack of service seems to be premature.

A study was completed in 1956 at New York University of 100 discount houses in the New York City area with regard to the following services: convenience of shopping, availability of merchandise and pricing, assistance in buying, terms of sale and credit, advertising and display, wrapping, delivery and installation, adjustments, returns, and servicing, and additional services. Merchandise selected for the shopping survey included television sets, washing machines, freezers, air conditioners, tape recorders, hi-fi radios, silver flatware and furniture.

The survey findings included the following:

- (1) The majority of discount houses are in high rent and heavy traffic areas.
- (2) The discount houses tend to follow the shopping hours of the areas in which they are located, but they give their customers an hour or two more in which to shop than do department stores.
- (3) Because of such special buying methods as transshipping, most discount houses are able to offer their shoppers a range of merchandise far beyond that in regular stores.
- (4) Sales personnel are reasonably well-versed and well-trained, and they do not use high pressure methods.

- (5) Discount houses make it easy for customers to apply for installment credit, but open charge account selling is virtually unknown.
- (6) A significant number of transactions are carried on by mail.
- (7) Discount houses will deliver merchandise but charge for this service with the charge varying as to the store and type of merchandise.
- (8) Few discount houses handle installations, but will arrange for such services on a fee basis.
- (9) Virtually all discount houses shopped in the survey offered some form of money-back privileges.
- (10) In making adjustments for defective merchandise, the warranty of the manufacturer becomes the primary protection of the customer.

The Survey concluded:

The common belief that discount houses offer no services or few services is hardly borne out by the facts. While it is true that department stores offer many more services than do the discount houses, and specialty retailers occasionally go beyond discount houses in this respect, it is also clear that discounters offer a substantial range of services on a free basis and make others available on a fee basis, so that large segments of the shopping public do not find it difficult or undesirable to purchase from such outlets.

A specific illustration of discount house services is that of Masters of New York City. Stephen Masters has stated:

Masters offers services equal to, and in some instances better than, those offered by many department stores. For example:

1. All merchandise is brand new and sold in original factory-sealed cartons.
2. Masters allows a refund or exchange at any time up to 30 days, with no questions asked.
3. Masters furnishes a one-year guarantee in addition to the manufacturer's usual warranty.
4. Masters maintains on its own premises a large, dependable service repair department.
5. Masters makes home deliveries.
6. Masters forbids switch-selling policies.
7. Masters offers a time payment plan.
8. Masters makes every item in the store, every single shopping day in the year, reflect a worth while saving of money.

What store that you know of offers more?

Mr. Masters has invited anyone who believes that these services are idle boasts, intended to deceive the customers, to check with the Better Business Bureau of New York City, of which Masters is a member.

Polk Bros. of Chicago believes that its customers should be offered every shopping convenience, such as free parking, various shopping services, and a vast selection, so that they can compare fully before they make the final purchase that will best fit their needs. In addition Polk Bros. has a decoration department. However small or large the purchase, the decorating service is available at no charge. Polk Bros. even provides wheel chairs in some of its stores for disabled shoppers.

There is very little less that the good discounter offers in services than the department store today. They give free delivery on big ticket merchandise; they give free delivery on small packages within a restricted area; in the area beyond this they charge for delivery and make a profit over and above what it cost them either to pay U.P.S. (United Parcel Service) or to deliver by mail. They give charge service but so far their charge volume amounts to about 5 per cent on their total business. It is only the big ticket merchandise on which they give credit and they make money on the paper.

This is not a too surprising statement until one learns that it was issued by William Burston of the National Retail Dry Goods Association to all of its 7,000 department, chain and specialty store owner members, and it reemphasizes the fact that many discount houses can and do compete in services as well as in prices with the other types of retail outlets.

The guarantee is no better than the company and/or store which makes it. On the vast majority of products sold today the guarantee is a company guarantee and the company is not going to disregard its guarantee due to the outlet through which the product was sold.

The consumer should use caution when buying no matter where the purchase is to be made. A discount house can stay in business no longer than any other type of retail outlet which makes it a practice to defraud the public.

#### Does the Discount House Save the Consumer Money?

The following empirical data give an indication of the savings to be had in purchases of fair trade items from non-fair trade areas such as St. Louis, or from discount houses which ignore fair trade.

1. The St. Louis Better Business Bureau published the following prices on General Electric appliances which were available in both St. Louis department stores and discount houses. St. Louis is a non-fair trade area:

ARTICLE	FAIR TRADE	LOWEST	SAVINGS OVER FAIR	
	PRICE	DISCOUNT PRICE	TRADE PRICE	DOLLARS PER CENT
Portable Mixer	\$19.50	\$12.28	\$ 7.22	37
Standard Mixer	43.95	26.37	17.58	40
Steam Iron	17.95	13.43	4.53	25
Swivel Vacuum	69.95	53.97	15.98	23
Steam Travel Iron	14.95	8.97	5.98	40
	<u>\$166.30</u>	<u>\$115.02</u>	<u>\$51.28</u>	<u>31</u>

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2. A special study of the Antitrust Division of the Department of Justice showed that on 736 items of ordinary drugstore business, the fair trade price totaled \$2,241.10, and the non-fair trade price in the District of Columbia on the same items, totaled \$1,602.44. This savings of 28.4 per cent was available to a careful shopper.
3. Eleven different prices were obtained by the writer on the identical product, a Royal Quiet Deluxe Typewriter. The highest price was the fair trade price of \$119.72. The lowest price was that quoted by Masters of New York City, \$79.89. The difference was \$39.83 or a possible savings of 33 1/3 per cent on the fair trade price.
4. The following prices were paid by the writer in purchasing the following fair-traded items below fair trade prices:

ARTICLE	FAIR TRADE PRICE	DISCOUNT PRICE PAID	NUMBER ITEMS PURCHASED
Argus Automatic Slide Changer	\$14.95	\$10.50	1
Argus Slide Magazines	2.25	1.55	6
Whirl-Away Car and Home Washer	6.95	4.65	1
Hamilton Beach Electric Mixer	19.50	12.29	1
Arrow 35mm Slide Viewer	5.95	3.95	1
Schick Injector Blades 20's	.73	.59	2
General Electric Steam Iron	17.95	11.40	1
Sunbeam Automatic Frypan and Lid	22.95	15.97	1 each
Kodak 35mm Film 20 Exposures	3.25	2.76	4
Kodak 620 Kodacolor Film	1.98	1.58	2
Total Cost for all items if purchases at fair trade prices:			<u>\$120.19</u>
Total Cost for all items at the discount prices:			<u>\$ 83.44</u>
Total dollar savings:			<u>\$ 36.75</u>
Total savings percentage wise:			<u>31%</u>

It should be stated that the discount houses and the fair trade laws have developed over the same period of time, and that available data prove that there is a relationship between the growth of the discount house and the passage of the fair trade laws.

It is interesting to note that the latest fair trade act (the McGuire Act) passed by the United States Congress was passed in the House by 196 yeas, and 10 nays, and in the Senate by 64 yeas, and 16 nays. Ninety-one per cent in Congress voted for this fair trade act while 9 per cent voted against it, and yet these are the same men that make the laws for the District of Columbia, and there has never been a fair trade law enacted for our Capitol, where our representatives spend their money.

The above list included only fair trade items. Following is a list showing the savings made by the speaker in shopping the discount houses. A number of these items were purchased through firms which call themselves wholesale houses, but have characteristics of the discount house and the goods were sold to the ultimate consumer. (See Appendix A)

In shopping for one of these items, a Hotpoint refrigerator, model EG102, the manufacturer's suggested list price was \$429.95. At one store, a so-called legitimate store, they quoted the price of \$479.95 and the lowest price quoted at a discount house, was \$276.00, a price difference of \$204.00 between the legitimate retail store and the discount house.

### How to Get Prices for Comparisons

The consumer who is desirous of buying for less, but knows of no discount houses can write to Polk Bros. or Masters and receive their prices and then use these prices as bargaining tools in the local market. If the local retailers do not desire to compete in this way, then the purchase can be made through one of these two discount houses, or through any of the many other discount houses which sell by mail.

Unfortunately the two most reliable magazines for the guidance of intelligent consumers, Consumer Union Reports and Consumer Research Bulletins, have not included in their individual product studies a range of discount prices for the items tested, just the suggested list prices are carried. If one or both of these publications would adopt this policy then the consumer would have both a good guide to quality as well as to price.

If this country is committed to a system of predominantly free enterprise then the entire discount house movement is compatible with it. Our productive capacities seem to be increasing more rapidly than our ability to consume. One important way to improve our capacity to consume is to reduce the cost of marketing, and the discount house seems to be doing this. The National Retail Dry Goods Association developed the margin of 32.9 per cent as the average mark-up on selling price for its member stores, while Stephen Masters of Masters Discount House stated they operated on a 11.2 per cent margin on selling price.

One columnist has stated: "For no matter which one (department store or discount house) seems ahead when the price shooting dies down, one thing is sure: You and I America's Consumers, will come out the winners."

## APPENDIX A

Play-A-Round Play Pen	S. Buchsbaum Wholesale House ordered by mail	\$29.95	\$23.13	\$ 6.82
1 pair slacks	SAME	8.95	6.19x	2.76
Dress	SAME	5.98	4.44x	1.54
Dress	SAME	5.98	4.44x	1.54
Dominion Waffle Grill	L-N Supply Company Discount House	24.95	16.71	8.24
Baby Pullman	SAME	14.95	11.95	3.00
Rubber Rabbit	SAME	.98	.78	.20
Hankscraft Bottle Sterilizer	SAME	12.95	8.71	4.24
Trimble Bathinette	SAME	27.50	20.62	6.88
Serta Pedic Crib Mattress	SAME	24.75	18.56	6.19
Philco Swivel Console 21" TV	Economy Exchange Quasi-Discount House	219.95	172.00x	47.95
Imperial Whirlpool Washer	SAME	359.95	264.00xo	95.95
Hotpoint Refrigerator	SAME	429.95	296.00xo	133.95
RCA Console Television 17"	Binstock Jewelers Quasi-Discount House	259.95	211.61x	48.34
Studio Couch	Fort Pitt Upholstering Shop Quasi-Discount House	139.95	111.60x	28.35
Drop Leaf Table	John Plain Wholesale House Ordered by mail.	179.50	125.90x	53.60
Totals		<u>\$1746.19</u>	<u>\$1296.64</u>	<u>\$449.55</u>

\* 3% Pennsylvania sales tax excluded from all prices listed.

x Including delivery cost.

o Including installation

Percentage savings on list prices: 26%