Drawing by A. Utin

Frank A. Friday

Gilchrist Medallist of the University of London, Mr. Friday is an economist who has had considerable experience of statistical work and is well known among industrial economists and statisticians. During the war he was in the Board of Trade. He is a Fellow and was, for many years, a member of the Council and Chairman of the Education Committee of the Institute of Statisticians (formerly the Association of Incorporated Statisticians). He is full-time economic adviser to Electric & Musical Industries Limited. articles on business forecasting a Mr. P. W. S. Andrews, of *Fa* *Maintenance Re-examined* (Mac

Shops and Prices

Inquiry into Resale Price Maintenance

FRANK A. FRIDAY

PITMAN

INDIAN INSTITUTE OF
ADVANCED STUDY
SIMLA

Shops and

Inquiry into Resale Price Maintenance

by

FRANK A. FRIDAY

LONDON
SIR ISAAC PITMAN & SONS LTD.

First published 1961

SIR ISAAC PITMAN & SONS LTD.
PITMAN HOUSE, PARKER STREET, KINGSWAY, LONDON, W.C.2
THE PITMAN PRESS, BATH
PITMAN HOUSE, BOUVERIE STREET, CARLTON, MELBOURNE
22–25 BECKETT'S BUILDINGS, PRESIDENT STREET, JOHANNESBURG

ASSOCIATED COMPANIES
PITMAN MEDICAL PUBLISHING COMPANY, LTD.
39 PARKER STREET, LONDON, W.C.2
PITMAN PUBLISHING CORPORATION
2 WEST 45TH STREET, NEW YORK
SIR ISAAC PITMAN & SONS (CANADA), LTD.
(INCORPORATING THE COMMERCIAL TEXT BOOK COMPANY)
PITMAN HOUSE, 381–383 CHURCH STREET, TORONTO

MADE IN GREAT BRITAIN BY DANIEL GREENAWAY & SONS LTD., LONDON
F1—(C.241)

PREFACE

Mr. Frank A. Friday, the author of *Shops and Prices*, is an economist with considerable experience in trade and industry who writes with singular authority. When he wishes to prove a point or sustain an argument, he takes the reader into his confidence and shows clearly the facts upon which he has developed his views with such rare objectivity that the reader can see the whole logical process. This is especially welcome when the theme appears to be a complicated one as in the case of resale price maintenance.

Those who have written against the practice have done so with an almost total disregard of the facts. The case against resale price maintenance is that, in their view, the abolition of this practice would result in lower gross margins for the retailer and, therefore, lower prices for the consumer. Obstinately they persist in this view, despite the findings of previous Government committees. The last one, the Lloyd Jacob Committee on Resale Price Maintenance, said in its official report that "on the whole, the margins allowed on price-maintained goods appear to be lower than those taken on free-priced goods."

They persist, too, in this view, even when the matter has been put to the test as in Canada, which abolished resale price maintenance in 1951, where it has been found that margins on most commodities went up and not down. Canada has now introduced amending legislation which moves some way towards a reinstatement of the practice.

I believe most thinking people will agree that a practice of such long standing should not be abandoned lightly and that before any action is taken the advantages of the practice should be fully understood and examined. It is here that Mr. Friday's book, a sequel to *Fair Trade—Resale Price Maintenance Re-examined* by P. W. S. Andrews and Frank A. Friday (Macmillan & Co. Ltd.), fills a conspicuous gap in the literature on the subject.

I particularly welcome this book as Chairman of the Resale Price Maintenance Co-ordinating Committee, a body formed to defend the practice against ill-informed attacks. The committee represents more than thirty national organisations covering manufacturers and distributors in almost every industry in which branded merchandise is produced and distributed. It speaks, therefore, for a very large proportion of the trading community of this country, and the assertion by some opponents of resale price maintenance that manufacturers and distributors, and their trade organisations, are now less ready than formerly to defend the practice is completely wrong.

In this book Mr. Friday critically analyses the manner in which the Board of Trade departmental committee have tried to study the facts relating to resale price maintenance and he indicates, in the light of the criticisms of the practice, the kind of information which, in his opinion, needs to be collected. Once again, Mr. Friday debunks the arguments and assumptions which appear in the writings of so many of the opponents of resale price maintenance.

This is not an academic problem. It is an issue which concerns the producers and distributors of branded goods, as well as the consumers who want to be able to do their shopping cheaply, conveniently and with confidence.

I commend this concise and very clearly written book which will have an undoubted appeal to all who are anxious to understand what the present controversy is about and who want to judge resale price maintenance on its merits without pre-conceived prejudices.

LEONARD PAGLIERO

CONTENTS

Preface 3

1. Trial by Committee 7

2. Questions and Subjects for Free Composition: 10
   - (a) The extent of resale price maintenance in different trades 11
   - (b) Reasons for the adoption of r.p.m. 13
   - (c) Methods of enforcement 13
   - (d) Connection with the structure of distribution 14
   - (e) Necessity to service some trades 15

3. Emotional Stress and Logical Strain 16

4. Helps and Hindrances to Retail Competition 21

5. Assumptions Galore 24

6. The Mythology of Service 26

7. Trends in Shop Margins 29

8. The Canadian Experience 32

9. Costs and Super-costs 35

10. Gullible's Travels 39

11. A Touch of Realism 43

Table: Retail sales through multiples and independent shops in 1957 45

Short Bibliography 46

SHOPS AND PRICES

1. Trial by Committee

Resale price maintenance is again on trial. Although it has been acquitted many times in official investigations, its critics continue with their persecution and with their demands for its prohibition. On 17th March, 1960, the President of the Board of Trade announced to Parliament that he was setting up a fact-finding inquiry into the extent and the effects of individual resale price maintenance. The decision was welcome for there have been far too many unsupported assertions made about the consequence of r.p.m. and far too many irresponsible forecasts of the likely results of its prohibition. Indeed, on a highly controversial subject like this, about which economists have argued for many decades, it is difficult to see how any conclusion could sensibly be arrived at without facts, or how any Government could be expected to formulate a policy without having some fairly clear idea about the consequences of that policy.

Yet, towards the end of last year, an economist who has been prominent in estimating the minimum reduction in retail prices which would follow the ending of r.p.m., and whose writings are interlarded with assumptions about the level of gross margins in distribution, suddenly lost all faith in facts: "It is, of course, impossible to measure the extent to which retailing costs, employment in distribution, retailers' gross margins, and retail prices would be altered with the abolition of r.p.m. in any particular trade, or generally." He went on to declare: " . . . even after the elimination of r.p.m. it may be difficult to measure its effects reliably." All is muddle; we must have blind trust in the assumptions made by the critics of r.p.m., in the analysis they base on those assumptions, and in their forecasts of the direction of changes. Whatever happens they will claim to be right, because statistics reflect results which are a compound of many factors and we must never try to assess their relative importance. Heads, I am right; tails, you are wrong.

The practice of resale price maintenance has been established for a long time. It means that a manufacturer of a product carrying his own trade name may prescribe and enforce the resale prices at which distributors must sell that product to retailers and to the public. There is nothing obligatory about it. A manufacturer may or may not maintain resale prices, according to circumstances. Of total spending in the United Kingdom in 1960, about one-fifth was on goods and services subject to r.p.m.; the remaining four-fifths comprised branded goods and services subject to direct price maintenance, branded goods not subject to price maintenance, other services, and unbranded goods.

Until 1956, manufacturers were able to enforce observance of their stipulated prices by means of collective action through trade associations in much the same way as workers collectively enforce observance of their minimum wage rates and agreed conditions of work through their trade unions. Under the Restrictive Trade Practices Act of 1956, the collective enforcement of r.p.m. was made unlawful and, in its place, the legal remedies open to individual manufacturers were widened to include action against a trader who bought goods for resale with knowledge of the r.p.m. conditions, even though the trader did not buy from the manufacturer. In many ways this method of enforcement is not so satisfactory as collective action. It is more costly and it certainly weights the scales rather heavily against the small manufacturer and in favour of the large distributor. Moreover, although no trader would allow himself to get into court for selling above a stipulated price, he may find it good publicity to do so if he is cutting the price, because many journalists will treat him as a hero being martyred by "big" business. One can, however, imagine the outcry if a manufacturer similarly decided that he could benefit the consumer by paying less than the minimum rates of pay to his employees, so reducing his selling prices. It would be thought quite proper for the trade unions concerned to take the matter into their own hands, call a strike of the manufacturer's employees and perhaps of the employees in other, non-offending firms in the same industry.

Really, enforcement is a separate issue from the merits or demerits of resale price maintenance. If, as I believe, the practice is not against the public interest, I can see no reason for any change in the present law, unless it be to make the enforcement of r.p.m. more effective and less costly.

The Committee appointed by the President to collect facts about r.p.m. is wholly departmental. It is not clear whether the information being obtained will be published or whether any of the evidence which the Committee are hearing, rather in the manner of a Royal Commission, will be made publicly available. The facts have been collected on questionnaires which were sent out in July, 1960, to a sample of 8,000 manufacturers, wholesalers and retailers. In the letter which went with the questionnaires, the Board of Trade stated that they are "fully aware of the general arguments for and against resale price maintenance," but that "they have insufficient evidence to enable them to form any firm conclusions on the extent to which it is practised, or on the part which it plays in the distribution of goods." In the light of the kind of questions asked, this is a somewhat odd statement. The trouble with the general arguments on this subject is that they have been conducted in a rarified atmosphere of intellectual abstraction in which all resemblance with real life has been purely coincidental. The dispute ought to be brought down to earth and many of the basic assumptions should be verified.

On the extent to which resale price maintenance is practised I find it difficult to believe that the Board of

Trade do not already have a considerable amount of knowledge. The practice was subject to inquiry in 1920, 1930, and again in 1949 when the Lloyd Jacob Committee on Resale Price Maintenance studied it carefully and collected evidence from firms and associations. It ought to have been easy for the Board of Trade to bring itself up-to-date on this aspect of the subject without sending out thousands of questionnaires. Last year (1960) I was myself able to make a fairly detailed estimate[1] of the extent of price maintenance (resale and direct) and the Board could surely have made a reliable statistical assessment in even greater detail. As it is, they expect to get, according to their letter, only a "general impression".

2. Questions and Subjects for Free Composition

The gravamen of the charge against resale price maintenance is that it raises gross margins above the levels that would prevail if retailers and wholesalers were left free to compete with one another. Therefore, it is argued by the critics, prices are higher than they need be and would fall if r.p.m. were abolished. The answer of those who defend the practice is that this is not true and prices are no higher with r.p.m. and may even be lower. This is the central issue which has to be resolved.

Will the facts which the Departmental Committee are collecting resolve it? It is necessary, first of all, to see what they are. The questions asked may be classified under five headings:

(a) the extent of r.p.m. in different trades,
(b) the reasons for its adoption,
(c) the precise methods by which it is enforced,
(d) the connection which it may have with the structure of distribution,
(e) the necessity to service some trades after sale.

I must make clear that the questions are not, in fact,

1. *Fair Trade: Resale Price Maintenance Re-examined*, by P. W. S. Andrews and Frank A. Friday, Macmillan, 6s. 0d.

placed under separate headings in this way on the questionnaire which is, if anything, rather confusing. Nevertheless, these are the aspects of the subject which the Committee are trying to cover, according to the Board's letter, and it will be convenient to deal with the questions under each of these headings.

(*a*) *The extent of r.p.m. in different trades*

Each group of firms—manufacturers, wholesalers and retailers—received a different questionnaire, although many of the questions were common to all three, but with each questionnaire there is a list of 330 products classified under 34 headings. At the end of this list there is a catch-all entitled "goods not mentioned above" in which firms can name any other products which are important to them; and at the right of the list are three columns numbered 1, 2 and 3. In order to get a general impression about the extent of r.p.m., the Board ask firms to do the following:

In column 1 they are to place a tick alongside the article if the prices are "fixed" by a manufacturer or wholesaler;

In column 2 they are to place a tick alongside the article if the prices are "suggested" by the manufacturer or wholesaler;

In column 3 they are to place the letter A if the prices are "fixed in most cases" and the letter B if they are not.

Manufacturers do this for the goods they manufacture; wholesalers for the goods on which they themselves "fix" or "suggest" prices; and retailers do it for all of those goods they sell.

It has not, perhaps, been made as clear as it might be that the use of the word "fixed" here refers to *individual* resale price maintenance. The word "fixed" has a sinister connotation and some people might think of prices agreed or recommended by manufacturers or wholesalers acting in association with one another. Since not all collective agreements have been abandoned or pronounced against by the Restrictive Practices Court, it is important that the form of individual resale price maintenance which is legally enforceable in this country is not confused with collective price maintenance.

It seems clear that the answers from each group of firms may well conflict. Those obtained from manufacturers ought to give a fairly clear idea of the extent of their determination of resale prices, with the proviso that the sample would have to be properly selected, because in many trades the manufacturers who make the branded and price maintained goods are not necessarily the same as those who make the goods priced by the distributive trades. In fact, the sample may not be altogether reliable because only about one-quarter (approximately 2,000) of the firms who received the questionnaires are understood to have returned them to the Board of Trade. At best, the Committee will discover the goods on which there is more than 50 per cent r.p.m.—information it surely knows already.

The answers from retailers are likely to be even less useful. With very many products, retailers inevitably have a mixture of (i) manufacturers' brands which are price maintained, (ii) manufacturers' brands which are free-priced, (iii) distributors' own private brands (usually price maintained), and (iv) unbranded products. For many of the chain stores, the private brands which are subject to what I have called direct price maintenance[2] are very important, yet they have been completely overlooked by the Committee.

Some idea of the relative importance in *shop* turnover of goods subject to resale price maintenance and to direct price maintenance would be worth knowing for it is generally thought that a higher proportion of the sales of independent shopkeepers, compared with the turnover of chains, comprises r.p.m. goods and for this reason the independent retailers are more vulnerable to price cutting

2. Ibid. pp. 7-12.

tactics. It would be interesting to examine this kind of information in the light of the different retail channels through which the different products are sold. Unfortunately, all that the Committee look like getting from the retailers is a list of articles on which the retail prices are "fixed" by the manufacturers and wholesalers "in most cases," or not in most cases. And when one looks at many of the items in the list—iced lollipops, nougat, sun glasses, rubber beach toys, pre-fabricated sheds and garages (surely subject in the main to direct price maintenance), electric bed heating pads, *un*branded furniture, gas pokers—one can be forgiven a doubt whether information in this form is really worth all the effort.

The Parliamentary Secretary, in his letter accompanying the questionnaire, stated that "the questions are not expected to produce an exact statistical picture." One can only comment that they will not.

(*b*) *Reasons for the adoption of r.p.m.*

All firms are asked "What from your point of view, are the advantages and disadvantages of (a) fixed prices and (b) suggested prices?" Answers to this kind of question give plenty of scope for free composition on the pros and cons of r.p.m., in which firms will be able to express their prejudices for and against the practice. The answers may be interesting and useful, but this can hardly be called fact-finding and seems especially odd in view of the Board's claim to be "fully aware of the general arguments" on this subject.

(*c*) *Methods of enforcement*

The questions asked on this aspect of r.p.m. are confined to 69 articles marked with a X on the list. According to the accompanying letter, these items were selected because "in almost all cases" they are typical and the answers on these would apply to other goods in the same class. Some doubts may be expressed as to whether this is wholly true and the questions could just as well have been asked in respect of all the items.

Manufacturers and retailers are asked what resale conditions they lay down and whether the prices are maxima, minima, or specific. They are also asked how the conditions are enforced and the "extent, nature, and results of any special action taken"; whether the conditions are enforced on all distributors and what difficulties are experienced. Manufacturers are further asked if the difficulties experienced are greater in some regions than in others.

The retailer's rôle here is different. Either he observes the resale conditions on which he bought the goods or he does not. The Board of Trade therefore ask retailers to state whether they have ever sold any of the 69 articles "below a fixed price except in a clearance sale?"; and if so, to give examples and describe any consequences. Later in the questionnaire retailers are asked if they have ever sold any of these articles as a loss leader, and to specify.

The answers to these questions on enforcement will indicate the extent to which manufacturers and wholesalers compel observance of resale conditions, and the compass of the defections.

(*d*) *Connection with the structure of distribution*

One argument of the critics of r.p.m. is that the practice stultifies the development of new and cheaper methods of distribution. This conclusion is arrived at by *assuming* that manufacturers usually give "generous" gross margins to the distributive trade so as to cover the costs of the "least efficient" firm, and, since there can be no price competition between distributors with the goods whose prices are determined by the manufacturer, the practice is alleged to prevent the replacement of "high cost" by "low cost" forms of retailing. Given the premise of "generous" margins, the critics can go on to assume that a competition in services is developed so that the costs of distribution are raised. This gives rise to pressure on manufacturers for higher margins, the manufacturers give way, there is more competition in services, up go the costs again, then the margins, and so on.

There are many statements in this argument which need verification. Unfortunately the questionnaire is weak on the relationship of r.p.m. to the costs and structure of distribution. Retailers are asked which of the 69 articles are bought direct from manufacturers, or which from wholesalers or others, but no information is collected about the level of their margins or their operating costs. Wholesalers are merely asked to give an opinion about the effect of completely prohibiting r.p.m. on the distribution of their goods. Manufacturers are asked whether, as a matter of policy, they seek the widest possible number of outlets or limit distribution to specialists. They are also asked for their opinion about the effect on (i) their own selling policy and (ii) their distribution arrangements, giving reasons, should r.p.m. be completely banned.

These are all general questions and they will produce answers which will largely be expressions of opinion. The nearest we get to anything about the level of prices is in a leading question asked of all three groups of firms as to the effect on prices if r.p.m. were to be entirely prohibited.

(*e*) *Necessity to service some trades*

On this aspect of the subject, the information being collected relates to after-sales services and mainly concerns the retailers. The questions (for the retailers and the manufacturers) are confined to the 69 items marked with a X, which is rather surprising since most of these articles could not, except with a great stretch of the imagination, require any after-sales services of the kind described on the retailers' questionnaire: i.e. installation, instruction in basic operation, performance of minor adjustments and repairs, performance of major repairs, periodic routine calls and inspections, maintenance of a trained repair staff, and the stocking of a comprehensive range of spare parts and tools. Here are some of the articles: butter, tea, condensed milk, buns, ice cream, Scotch whisky, tobacco, flooring tiles, cement, gramophone records, board and card games, towels, sheets, insecticides, kerosene. Surely it would have been better to let firms deal with the after-sales services on any of the products on the complete list where service is applicable. This would have given a much clearer picture of the kinds of goods being serviced and the rôle of manufacturers and retailers in this servicing.

Retailers are asked to indicate which of these services they perform (for the small number of goods in the 69 where after-sales service is relevant), noting any which they do free of charge. They are also asked to state the cost of any free after-sales services expressed as a percentage of the turnover of these goods; whether all of these goods are subject to "fixed" prices; and whether retailers give similar services on comparable goods not marked with a X whose prices are not "fixed". Without knowing the margins and the prices it is difficult to see what this information can yield.

From the manufacturer the Board of Trade want to know for which of the short list of goods marked with a X after-sales services are provided, who does it, and how much of the cost is met by the manufacturer under guarantee or otherwise. The wholesaler is asked no questions on this aspect of the subject.

3. Emotional Stress and Logical Strain

The intention of the President of the Board of Trade, in setting up the fact-finding inquiry, was presumably to get something more concrete about the effects of the practice of resale price maintenance than could be got from the intellectual abstraction of many of the arguments on the subject; yet it may be doubted whether the kind of information which has just been described will resolve this debate. The extent of r.p.m. is adequately known already and the asking of direct and leading questions about its effects is likely to produce only another crop of opinions. This is unfortunate because so much of the argument against the practice is couched in emotionally charged, question-begging language and is based on assumptions which ought to be subjected to the most careful scrutiny. Moreover, many of the arguments in favour of r.p.m. are completely misrepresented.

Let us take a quick look first at some of the language and some of the assumptions. Gross margins under r.p.m. are often described as "generous", thereby keeping in existence the "non-aggressive" or "inefficient" or "high-cost" retailers who, but for the "protection" of r.p.m., would go out of business. The interests of consumers are said to be "subordinated" to the interests of suppliers and the growth of "more enterprising" or "more efficient" retailers to be "impeded." Ridiculous reasons are given for some of the assumptions. For example, according to one writer, the conclusion that r.p.m. keeps retail prices higher than they otherwise would be is supposed to be suggested by the disregard of differences in the costs of retailing and in the requirements of consumers. This is logic gone mad. Now differences in costs are not, of course, a new or an unusual phenomenon; and the existence of differences in retailers' costs is not in dispute. But these costs relate to a shop as a whole and cannot be allocated definitely to individual products. By themselves these differences prove nothing. Yet this fact is used to justify *different* prices for the *same* article sold with the *same* services in the *same* type of shop in the *same* locality, by economists who believe that retailing is very competitive and would be more so but for r.p.m. Economics certainly takes some queer turnings at times. It would be interesting to eavesdrop at the lectures on the theory of price given by some of these critics.

There is also a tendency to make sweeping and contradictory generalisations about the harm of resale price maintenance. For example, "guaranteed gross margins above the levels allowed by price competition enable more retailers to exist on a given aggregate volume of trade", but "it makes it more difficult for newcomers to extend their trade rapidly".[3] This assumes many things and completely overlooks the opportunities which must be open to retailers to market their own private brands if they are really able to reduce prices below the prevailing market level all the time and not merely for a few weeks only on a few lines. Yet the attitude to private brands is curious. "It is conceivable that in some industries manufacturers' brands of some products might in the aggregate lose sales to competing private brands and unbranded varieties as a result of the abolition of price maintenance."[4] This contains enough qualifications to make it unchallengeable. We are then told that "this result is highly improbable. It is sound to conclude that the producers of manufacturers' brands would win the major portion of the increment in the sales of the products. Price maintenance may have been useful fifty years ago in some trades to increase the sale of manufacturers' brands at the expense of private brands."[5] This is surmise. In the U.S.A., in the inter-war years, the private brand grew considerably alongside price cutting and has continued to grow in importance. Some observers say that private brands are born "out of desperation," as an American trade paper recently expressed it, because manufacturers' brands become unprofitable when they are subject to price cutting wars; others deny this and think that the private brands would have appeared anyway. All we need note here is the fact that private brands represent a very high proportion of consumer spending in the U.S.A. and they have obtained that position in conditions which are supposed, by certain critics of r.p.m., to encourage manufacturers' brands.

The reference to fifty years ago is especially interesting.

---

3. *The Economics of Resale Price Maintenance*, by Prof. B. S. Yamey (Pitman, 1954) p. 81.
4. Ibid. p. 47.
5. Ibid. p. 47.

The private brands which are of importance in competition with manufacturers' brands are those developed and marketed by the chain retailers, and at the beginning of the present century they were not important. Indeed, it is doubtful whether all branded goods comprised a large element of retail sales at that time. But manufacturers need have no worry, for the critics believe that resale price maintenance was useful in increasing the sales of their brands in competition with the private brands and its abolition now will do exactly the same. What could be fairer?

In their enthusiasm to give the practice a bad name the critics find it easy to slip into a *post hoc ergo propter hoc* type of argument. Without any justification they assume that r.p.m. is the cause of some detriment. Here is an example. "If branding and resale price maintenance had been as widespread in 1860 as they are today, it is certain that the department stores and multiples would have developed far more slowly and would have been less important in several trades. These new methods of retailing became established and grew to importance on the basis of competitive price reductions (price cutting)."[6] Thus, resale price maintenance is held, for certain, to retard the growth of multiples. Let us look briefly at the history of multiple retailing. The first chains were, in the 1850s, in the sale of newspapers and magazines (W. H. Smith & Son and J. Menzies), based largely on bookstalls in railway stations, and in the sale of sewing machines (the Singer Manufacturing Company). By the end of the 19th century, the estimated share of chain stores in total retail sales was only between 3.0 per cent and 4.5 per cent. The main trades were books, newspapers and magazines, sewing machines, footwear, grocery and provisions, and meat.

The rate of growth increased during the present century and multiples spread to most trades. The growth was most notable in chemists' goods, books, footwear,

6. Ibid. p. 90.

bread and flour, milk, tobacco, men's and boys' wear, women's and girls' wear, confectionery, and in variety stores. W. H. Smith & Son had a rapid growth of bookshops in a period characterised by resale price maintenance.[7] The same is true of firms in other trades. Also, many were built up on their own branded goods (e.g. the hatter, G. A. Dunn & Company). The following figures indicate the progress of multiple retailers:

Estimated Share of Chain Stores in Total Retail Sales[8]

1900	1925	1950
3.0—4.5%	9.5—11.5%	18.0—20.5%

In the last Census of Distribution for 1957 the proportion of total retail sales taken by multiples was 26 per cent.

There is no *certainty* whatever about the inhibiting effects of r.p.m. and branding on the growth of multiple retail organisations. This interpretation is highly suspect.

The misrepresentation of the case for resale price maintenance is unfortunate, for it prevents honest discussion of disagreements. In the pamphlet entitled, *Revolution in Retailing*, published by the Institute of

7. It is interesting to note that the first book to be sold at a net price was *The Principles of Economics*, by Prof. Alfred Marshall, published by Macmillan in 1890. Sir Frederick Macmillan described the policy in *The Net Book Agreement, 1899*: "In order that a beginning might be made, it was necessary to find an author who would allow us to experiment with his book . . . Professor Marshall kindly assented to the proposal made in my letter, and all was now clear for action. When his book was ready, we subscribed it to the trade on the terms suggested and at the same time gave notice that the terms on which it was subscribed to the booksellers were such as would not admit of any discount from the published price. This notice was inserted in our advertisements, and a printed slip repeating it was placed in every copy of the book sent out from our warehouse, in order that a bookseller might be able to explain his position to any customer who demanded the usual discount. *The Principles of Economics* was published in July, 1890, and I need hardly say that when it was subscribed it met with a very poor reception from the discount booksellers. Some of them would not touch it at all, others said they would buy as few copies as possible and do all they could to discourage the sale of this or any other book offered on the same terms."

8. These estimates are from *Retail Trading in Britain, 1850-1950*, by James B. Jeffreys (Cambridge University Press, 1954).

Economic Affairs, Mrs. Christina Fulop says that the arguments which Mr. P. W. S. Andrews and I have advanced in *Fair Trade* cannot be taken seriously, "because they are based on confusing and contradictory premises which bear little relation to current retail practice or history." She gives an example which I really must reproduce here. "There is the curious proposition, for instance, that varying retail prices do not reflect differences in efficiency, but only the degree of service offered to the consumer. This is apparently based on another premise, that because retail costs are almost entirely fixed they are, therefore, uniform." (page 40). Well! well! The first sentence is a garbled account of our views and the second is sheer fantasy. This is what, in fact, was written about retailers' costs in *Fair Trade* (page 18): "For any short period of time these costs are largely fixed and can be allocated only in a rough and ready way to the many hundreds and perhaps thousands of different lines which the shop handles. These costs have to be incurred whatever the level of turnover although they can, of course, be adjusted, over a longer period of time, to take account of any growth or decline in the business." Because each retailer's costs are relatively fixed does not mean that they are all the same! Nowhere was it said or implied that all retail costs are uniform, so the other "premise" (which in addition to other inaccuracies has been reversed) could not have been based on it! In the way Mrs. Fulop reports our ideas, all is undoubtedly confused, contradictory and curious.

4. Helps and Hindrances to Retail Competition

The case against r.p.m. really rests on a simple belief that prices *must* be lower with competition than they are without it; and competition here means not only competition between all of the different makes of a product but between all of the outlets distributing any one of those makes. The manufacturer of a nationally-advertised branded product may well not see his distribution problem in this way: for him, any retail outlet is merely one of many complementary locations where the manufacturer's goods are kept in stock and may be seen and purchased by the public. Such a manufacturer does not regard these outlets as being in competition with one another in the sale of his brands. The volume of sales through distributors depends in no small measure on having an adequate number of locations in the market. Similar considerations apply with chain stores in the sale of their own private brands. The outlets are complementary and the shop in one town is not regarded as being in competition with its neighbouring shop.

In what sense can retailing be considered competitive? Clearly it cannot be in the formal theoretical sense that requires a multiplicity of outlets for each type of product in any of which all consumers, having a complete knowledge of all the prices asked and of the services offered, are able to make their purchases. Both consumer knowledge and mobility are limited. People living in Exeter cannot be aware of prices in Aberdeen and they are unlikely to be buying anything there. Nevertheless there are factors making for competition in retailing. There are usually many alternative outlets even in small towns for those products which are bought frequently in small quantities, like food, drinks, tobacco, confectionery, toilet preparations. A more important consideration, however, is the mobility of a large proportion of consumers. Many people work away from their homes and so are able to shop in at least two places. Nearly one-third of all families in this country own a car and are thus mobile over quite large areas. Consumers' shopping areas overlap and there is some measure of competition between them.

If, for clarity of thought, we now assume that all retail outlets provide similar services, we should expect this competition to produce uniform prices for identical articles throughout the market. This expectation is strengthened by the uniform pricing policies of the chain stores, which have a wide coverage. The argument against uniform prices in competition is poor. If there are different prices for identical products, the chances are that the competition is weak.

The critics might reply that if the retailer is allowed to fix prices instead of the manufacturer, the competition between outlets would ensure that the uniform price would be at its lowest; and, in competitive conditions, there could be different prices to take account of different services. Unfortunately, in practice, there are many barriers preventing the full force of competition from pushing prices down to a uniformly low level, even in those goods which are freely priced, such as vegetables and meat. Over one-tenth of the population consists of retired persons who are not very mobile in their shopping. In many places there is only one shop selling a certain range of goods. In new towns one shop per trade is a deliberate policy on the part of the local authorities, and in villages there is frequently not enough business for more than one shop. Housewives are generally busy people and do not want to spend too much time on their regular purchases, so they try to make their shopping easier and more convenient by using nearby shops. And the growing use of the telephone makes people order on shops they know and trust. Indeed, there is a lot of habit, friendliness, and loyalty in shopping and people go regularly to a few shops which they like and know from experience are trustworthy. Moreover, many things such as cigarettes and chocolates are often bought on the spur of the moment (just before a show or catching a train) and there is no opportunity or desire to make a wide comparison of prices.

For many other goods the number of outlets is necessarily small because the goods are bought so rarely by each consumer. These are often complicated products which require careful thought before purchase and take a lot of time to select from the many alternatives which are available. As a result, there is undoubtedly some measure of monopoly in some places and retailers are able to take advantage of this and charge higher prices than in very large towns where competition may be strong. But even in those towns retailers react differently to price-cutting campaigns and different prices for identical articles may be found during the period of the campaign.

The nature of retailing is such that prices may contain an element of monopoly profit. With free pricing they will then be above the uniform low price which would rule in truly competitive conditions.

5. Assumptions Galore

The critics make the quite unwarranted assumption that, whenever prices are determined by retailers, they are always—or nearly always—lower than the prices established by manufacturers under r.p.m. because retailers are willing to work with lower margins. On this question of margins and prices we need more facts. The Lloyd Jacob Committee pointed out that for goods subject to r.p.m. the gross margins are, on the whole, lower than on free-priced goods. This leaves the critics quite unmoved. Their argument goes like this: the things being compared are different, so the comparison is fallacious. The manufacturer of a branded article takes a prominent part in selling the goods by national advertising and other means, so the retailer has less work to do in selling branded than he has in selling unbranded goods. It is not surprising therefore that products sold under r.p.m. carry lower margins. Moreover, it is irrelevant, because it fails to prove that the margins are not higher than they would be without r.p.m.[9]

But the reasoning cannot be stopped at this point. Because a statement does not prove that margins are not too high it does not prove that they are! And dissimilar

9. This argument will be found in *The Economics of Resale Price Maintenance* by Prof. B. S. Yamey, pp. 3 and 4.

things can certainly be compared if allowance is made for the dissimilarities.[10]

The critics have no right whatever to *assume* that the difference between the margins on the two classes of goods is smaller than the extra cost to retailers of selling the unbranded articles. How do the differences in the distributive trades' gross margins on branded goods subject to r.p.m. and free-priced branded goods compare with the differences in manufacturers' promotional expenses for the two categories of merchandise? There is, apparently, no end to the assumptions the opponents of r.p.m. are willing to make in order to prove their case, but we need facts, not irresponsible assumptions.

It would be useful to have the facts about margins on a whole range of products, showing those which are (i) branded and subject to resale price maintenance, (ii) branded and free-priced, (iii) the private brands of distributors, subject to direct price maintenance, and (iv) unbranded and free-priced. It would also be instructive to have the margins given on a sample of r.p.m. goods

---

10. It is interesting to note how some opponents of r.p.m. are quick to spot all the difficulties in using economic statistics when those statistics throw doubt on their conclusions. They are not so careful when figures seem to support their case. Some examples were given in *Fair Trade*. Here is a passage from *The Economics of Resale Price Maintenance*, by Professor B. S. Yamey, (page 30): "Price competition among booksellers was given free play. By the 1890's booksellers were giving their customers discounts of threepence (sometimes fourpence) off each shilling of the published prices of new books. Retail gross margins were compressed, and many booksellers, both in the cities and in the provincial towns, felt the effect of the severe competition directly. Yet the number of retailers of books seems to have grown. For example, from 1872 to 1900 a 25 per cent increase is revealed in entries in trade directories." The rapid growth in the population and the standard of living in that century is completely overlooked. In those 30 years the population alone grew by 32 per cent. Moreover, the first Education Act was passed in 1870 and this was followed by the Act of 1876 when instruction in reading and writing was made compulsory for every child. Thus, these 30 years also coincide with a rapid increase in literacy. Professor Yamey has clearly not heeded the advice he recently offered to others in *The Three Banks Review* for December, 1960: "In economics, simple deduction from simple statistics is not a satisfactory substitute for analysis".

over the last 50 years in order to check the constant assertions that margins under r.p.m. cause distribution costs to rise and are always themselves being pushed upwards. It is a great pity that the Board of Trade fact-finding committee are not collecting anything about the size of margins.

Information ought also to be collected about the help which is given by manufacturers to retailers. It is sometimes stated that, since a manufacturer does not own the goods after he has sold them to an outlet which he does not own, he has no right to determine the retail prices. This is an arguable point, for the manufacturer has an important and sometimes expensive stake in the goodwill attaching to his name and this is a valuable feature of those articles from the retailers' point of view. But the manufacturer who sells under r.p.m. often assumes many of the obligations of ownership, giving special returns allowances, freedom from control in the event of excess stocks, and full credit for the difference in purchase cost on shop stocks when the retail price is reduced.

6. The Mythology of Service

The public interest in resale price maintenance is identified with the right of consumers to be able to get the products they want at the lowest possible prices. This cannot mean that a uniform price for a particular article in all outlets is itself wrong, for that is the kind of price which competition can be expected to produce. The case against r.p.m. must rest on whether the retail prices established by manufacturers are necessarily higher than the prices likely if the retailers instead of the manufacturers fixed them.

The leading question which the Board of Trade are asking about the effect of r.p.m. on prices will not resolve this problem, because the answers to that question can only be opinions, however honestly expressed, and not facts. I imagine that the Committee are well aware of this. A study of gross margins on various groups of products of the kind suggested in the previous section would help in making some estimate of the probabilities, because the forecast reduction in prices depends, according to the critics, on the ability of the "efficient" wholesalers and retailers to reduce their gross margins. In shops where the proportion of r.p.m. goods is small it would be instructive to see what margins are freely placed on branded goods not subject to r.p.m. and on the other categories of goods handled. What evidence there is in other countries does not point to the conclusion that the abolition of r.p.m. reduced distributors' margins or prices.

It is necessary, however, to deal now with the question of services, because differences in these may well be reflected in different prices for the same article. In their questionnaire the Board of Trade fact-finding committee confine their attention to after-sales services. To many of the critics, the services provided by shops are much wider and embrace credit, packing and wrapping, delivery, location, and shopping comfort, as well as after-sales service.

On this aspect of the subject there seems to be a good deal of exaggeration. It may be questioned whether location as such ought ever to be regarded as a service. It is true that a nearer shop is more convenient than one farther away, but the shop near to some consumers will be far from others, and vice versa. If competition in retailing is dependent on the mobility of consumers, we must allow that they move about willingly. Although a near shop is obviously convenient, we must not assume that consumers will necessarily pay for that nearness as though it were an extra service. If a small village shop does charge more for some articles than would be paid in the nearest town, the chances are that it is because the shop enjoys some measure of monopoly and not because consumers value the position as a service. This makes sense because, if location is a service, we must take account also of the less contemporary splendour of the village shop compared with the town and value in the opposite direction the two "shopping comforts".

It is very doubtful whether there are many services which are responsible for important differences in prices. What part does credit play in retailing outside of hire purchase? In many trades—for example, consumer durables—credit may well be insignificant and hire purchase is an additional charge. Are wrapping and packing, and delivery, in retail shops a very large addition to costs? Most of the self-service stores seem to go out of their way to wrap up everything at the cash counter. In figures I have seen, delivery is not a large percentage of turnover; even in the furniture trade where a high proportion of goods has to be delivered, it does not usually exceed 2 per cent and in the grocery trade it is much smaller. The scope for large reductions in prices from eliminating extra services is probably very limited. However, these are facts which can be ascertained.

Low prices, and especially the "spectacular" cuts on a few lines, are not necessarily the result of low costs, but are charged in the expectation that the resultant higher sales will reduce the shop's costs expressed as a percentage of turnover. But the same happens with services. The addition to a retailer's sales by providing extra services may considerably outweigh any additional costs. It is not r.p.m. which encourages services but the competitive factors in retail trade and the exceptionally high overhead content of retail costs.[11] This has been made abundantly

11. The effect on pricing policy of the special character of distribution costs is discussed in *Fair Trade: Resale Price Maintenance Re-examined*, by P. W. S. Andrews and Frank A. Friday. In an article in *The Three Banks Review* for December, 1960, Prof. Yamey has drawn from this discussion the wholly irrelevant conclusion that it must mean a fixed quantum of retailing costs for consumers. This completely overlooks the dynamic factors in the economy and the continuous growth in consumer purchases. He even questions whether the costs of running a shop are almost wholly equivalent to fixed overheads on the grounds that the earnings of the proprietors of independent shops, being a residue, are therefore not fixed! This is a quibble. The definition of a proprietor's income may vary in an unincorporated business, where his wages get mixed with the net profit, compared with an incorporated business, where the two items are treated separately, but the costs are still overhead costs, however classified. The relevant point is that it is difficult to measure efficiency in distribution and to relate prices to

clear in Canada where the growth of margins and of services in the food trades since 1951 was the subject of a special inquiry. If the effect on retail prices of eliminating services were really large, the shops doing so would quickly be able to appropriate to themselves a large proportion of their competitors' business. It is interesting to note that retailers who come into existence with no-service, no-frills and low prices soon change their tactics and start providing the usual services. It may be added that, whenever different standards of service really are of significance (e.g. in clothing) consumers have full opportunities of satisfying their preferences at appropriate prices.

7. Trends in Shop Margins

The Board of Trade already possess a considerable amount of information on the structure of retailing and on the level of gross margins in the census of distribution. This is presumably being used to supplement the answers obtained on the questionnaires. Unfortunately, the full results of the last census (for 1957) are not yet available and the amount of detail collected on operating costs is meagre.[12] It has been argued that statistics of the average gross margins of retailers are difficult to use because they are influenced by many factors (which is true) and that changes from one date before ending r.p.m. to another date afterwards cannot establish the cause of the change

continued from page 28.

costs when total shop costs are relatively fixed in the short period (see *Fair Trade*, page 19 and section 9 below), and do not vary proportionately with total sales which comprise hundreds of different lines.

12. This is not the fault of the Board of Trade, which suffered much opposition from many businessmen when the first census of distribution was taken. The value of good official statistics is not yet fully appreciated in the United Kingdom. Moreover, long intervals between the censuses have been imposed on the Board of Trade (more frequent censuses were originally proposed) with the result that the work has to be spread if the statistical staff is to be evenly employed. We get good official statistics in this country, but we get only what, as businessmen, we are willing to give and what, as taxpayers, we are prepared to pay for.

(which is obvious) and do not show what the gross margins would have been if r.p.m. had not been ended (which nobody is trying to do).

The level of margins is at the heart of this problem and it would be sad indeed if the statistics on this subject yielded no clues at all about the effect of banning r.p.m. in distribution. In any year, the average gross margins of shops must differ because of:

(a) the different proportions of each shop's total turnover represented by goods carrying different gross margins;

(b) any differences in the gross margins on identical lines of merchandise between one shop and another; and

(c) any differences in the portion of each shop's turnover made up of such things as repair work and rentals.

The range and the variety of goods handled by each shop can vary enormously. A fairly wide dispersion in average gross margins can be expected in any trade and it would have nothing to do with efficiency, whatever that means in distribution. The detailed statistics which the Board of Trade published in the 1950 census volumes demonstrated this clearly and showed also that there was an interesting stability in these average shop margins in organisations of quite different sizes in some trades.

The differences under (b) above result from the hindrances to competition in some trades and in some areas discussed in section 4, giving rise to different retail prices; but differences in margins on the same goods may also arise in fully competitive conditions when some retailers get extra quantity and cash discounts and sell at the same prices as other retailers either because of r.p.m. or because those are the uniform prices determined by competition. The Board of Trade Committee are only asking manufacturers for instances where larger margins are given to distributors who provide special facilities or services. It would have been interesting to have ascertained the kind of product on which quantity discounts are given and the extent of this with any goods subject to resale price maintenance as well as with goods priced by retailers.

The changes from year to year in these average gross margins are unlikely to be affected by wildly erratic movements in the relative importance of the groups of factors enumerated above. There is a high degree of stability in the broad pattern of consumer expenditure; even within a trade, the change in the relative proportions spent on different lines is gradual. And any alteration in margins is likely to be on very few items. The changes in average retail gross margins can be upwards or downwards, but the total change from one year to the next in any trade is not likely to be more than 1 per cent, and smaller still for all trades together.

In a longer period, covering a number of years, there are forces at work which tend gradually to raise the level of distributive margins:

(i) the opportunities for reducing costs in distribution are fewer than in production. Therefore, distribution costs expressed as a percentage of retail prices slowly rise and are reflected at some stage in higher margins;

(ii) as the standard of living increases, there is a change in the pattern of consumer spending, with a larger proportion on the less essential and slower moving items which usually carry higher margins; and

(iii) a rising standard of living also means that people come to expect *more* and not less service from retailers.

Ultimately the balance of the many factors influencing retail gross margins is upwards, although the amount of the increase even in a decade is quite small. In the seven years from 1950 to 1957, the average gross margins of all retailers in Great Britain rose by 1.1 per cent from 22.3 per cent to 23.4 per cent. In separate trades the change was usually under 4 per cent either way.

8. The Canadian Experience

It is clear that the impact of banning resale price maintenance ought to be very obvious in statistics of shop margins if the critics are right in their forecasts about the effects. After all, they always *assume* that margins under r.p.m. are too high, so they are able to claim that the margins *must* go down, and with them retail prices, when the practice is eliminated. Professor Yamey made a "cautious estimate" of 5 per cent as the likely fall in retail prices of all r.p.m. goods on the average in the United Kingdom, the inference being that it might be more. Indeed, on some articles—for example, household electrical appliances—a much larger reduction in prices is forecast and a fall of 22 per cent for these products in Canada has been quoted.[13] On other products, such as groceries, there is, apparently, "less scope for dramatic price reductions".

A fall of 5 per cent in retail prices is a lot in terms of the gross margins on those goods. It means that, if the gross margin is now (say) 25 per cent of the retail price, it must be lowered to 20 per cent of the original price—a drop of one-fifth. Moreover, the effect on the gross margins of products such as consumer durables where the forecast price reduction is so much greater will be very striking indeed.

I have estimated that spending on r.p.m. goods and services accounts for approximately 20 per cent of total consumer expenditure in the United Kingdom.[14] If we exclude all services not sold through retailers covered by the census, the proportion is about 28 per cent of the turnover of shops, so the impact of a fall of 5 per cent in the

13. By Professor B. S. Yamey in *Resale Price Maintenance and Shoppers Choice*, page 13. For an examination of these figures the reader is referred to *Fair Trade*, pages 32-35.

14. *Fair Trade*, pages 7-8.

prices of goods previously subject to r.p.m. would be a fall of about 1.3 per cent in average gross margins. This would more than wipe out the increase over the seven years from 1950 to 1957. However, in those trades in which the proportion of r.p.m. goods is high, and especially where the forecast reduction in margins is much more than 5 per cent of the retail price, the effect on the average gross margins of those retailers ought to be very large indeed. For example, if retail prices of durable goods are expected to go down by 10 per cent after the abolition of r.p.m., then the gross margins on those goods must fall by that percentage of the original retail price (which is a smaller percentage on the new lower price). If the gross margin is 30 per cent, a fall in prices of 10 per cent reduces the margin to 22 per cent, calculated on the new prices; and if three quarters of total sales in this trade comprise goods subject to r.p.m., the average fall in margins would be 6 per cent. If in the six years following prohibition, other factors put up average gross margins by 5 per cent (and the increase is unlikely to be greater), the net effect would be a fall in gross margins of 1 per cent of retail sales; and if other factors put average gross margins down, the fall would be more than 6 per cent.

It is true that the large retailers who get extra quantity discounts are better placed to reduce prices than the small man who does not get those discounts, so there could be a switch in trade from the latter to the former, but the amount of any transfer and the effect must be insignificant because quantity discounts are not general and the total trade of the small shopkeeper is necessarily a very small part of total retail trade. Moreover, the reduction in prices by these large retailers must also mean a reduction in their gross margins.[15] The statistics of

---

15. Where quantity discounts apply, they are almost certainly smaller than the percentage reduction in margins needed to bring about the size of the promised reduction in prices. Cash discounts can really be ignored because trade credit is merely an alternative method of financing a business.

retailers' margins ought not to show any increase at all for some years after the banning of r.p.m.

Some of the critics like to put the proportion of consumer spending on r.p.m. goods higher than my figure, even since publication of my estimate. Mr. A. R. Prest has recently declared, without producing a scrap of evidence, that it is between one-quarter and one-half of consumer spending.[16] Thus, on the basis of their own estimates, the impact of abolishing resale price maintenance could not fail to be noticed in the statistics of shop margins. The reduction in gross margins from this single cause would more than offset the effect of all other factors, and even over a period of some years, the net result would be a fall. Yet, when we study the gross margins of retailers in Canada just before the legal prohibition of r.p.m. in December, 1951, and a few years afterwards we find that they have, in fact, risen by about the same amount as in Great Britain.[17] From this we may reasonably infer that the abolition of r.p.m. did not bring about a general fall in retail margins or in prices.

It is now being argued by the critics that the distance between the years which I selected—a period of six years—is such that the influence of other factors on gross margins must swamp the effect of abolishing r.p.m. so making interpretation impossible. As we have seen, this is very unlikely if their estimates are anywhere near right. However, let us minimise the effect of other factors and examine the statistics of average gross margins of retailers immediately after the prohibition. This ought to be particularly revealing in view of the claim now being made that the "very spectacular price-cuts" are to be expected in the short period soon after the ending of r.p.m. Here are the available statistics of retail gross margins in Canada for a number of trades in which r.p.m. was important and where some very large reductions in the average gross

16. *The Future of Purchase Tax* by A. R. Prest (Institute of Economic Affairs) pages 23 and 34.
17. *Fair Trade*, pp. 38-39.

margin ought to have occurred on the strength of the critics' assumptions and forecasts.

	1950 %	*1952* %	*1956* %
Confectionery—			
independent	18.2	18.8	19.0
Tobacco—			
independent	17.6	16.5	18.7
Drug stores—			
independent	31.2	31.6	31.7
chain	33.7	33.8	34.9
Footwear—			
independent	29.7	28.9	31.5
chain	31.6	31.6	34.0
Radio and electrical—			
independent	27.8	26.4	25.6
Garages—			
independent	27.8	29.9	33.6
Filling stations—			
independent	18.7	20.1	20.8

(For the chain stores, the years are 1951, 1953 and 1957.)

Where are the spectacular price cuts? Even the reduction of 1.4 per cent in the gross margins of shops selling radio and electrical goods bears no relation whatever to the kind of reductions which have been quoted by the critics of r.p.m. for these goods. The figures are consistent with the sort of variation in average gross margins which could be expected had r.p.m. *not* been prohibited. Indeed, it seems clear that margins in Canada with resale price maintenance were not too high, or "generous", so its prohibition in 1951 could not cause them to fall.

9. Costs and Super-costs

The reasons for this are clear. The high overhead content of the costs of running a shop make the determination of the selling prices of each of the many hundreds of different items in the shop extremely difficult. Most of the costs exist whatever the total of the sales in the shop. As I indicated in *Fair Trade*, page 19, there is room for some adjustment: "There is a minimum figure below which operating costs cannot be reduced and if turnover falls below this, the shop will become unprofitable and have to be closed; and there is an upper limit to the expansion possible in the premises of one shop so, at this point, a rise in turnover requires the acquisition of additional premises." A retailer has to cover these costs out of the aggregate of his gross margins—i.e. out of the differences between all his selling and buying prices. Because the costs are relatively fixed in the short period, they represent quite different percentages on different levels of sales. Thus, if operating costs of a shop in a year amount to £3,000, they represent 30 per cent of turnover when the turnover is £10,000 and 20 per cent when it is £15,000. If an extra assistant is needed to sustain the additional turnover, the annual costs will be higher—say, £3,500—and they will be 23.3 per cent of £15,000. And if on the turnover of £15,000 his average gross margin is 25 per cent, he makes a net profit of 1.7 per cent.

A retailer cannot just raise his prices and gross margins simply because his operating costs exceed his aggregate gross margins. For example, if the average gross margin of the shop is 20 per cent and the annual turnover is £5,000, the retailer would not be able to stay in business for long if his annual operating costs were £1,500, i.e. 30 per cent of the turnover.[18] The shop would have to increase the value of its sales by at least 50 per cent in order to bring the costs down to a percentage equal to or below that percentage average gross margin. To raise prices and margins by such a percentage would be out of the question. The increase can more easily be achieved by extending the range of products being handled than by adjusting the prices of the existing range, unless the low turnover arises

18. This is so in an unincorporated business when the proprietor's income is counted in this figure. It means that he is unable or unwilling to continue living on an income £500 lower than he needs or wants.

from too high a level of prices. Even so, some increase in the scope of the shop's business would clearly be necessary, because a reduction in prices by 5 per cent would require an increase in the volume of sales of those products by more than 100 per cent for the shop to become profitable.

Because the costs of running a shop are mostly overheads and cannot be apportioned to individual items, and because the relationship of these costs to sales depends in no small measure on the combination of articles selected for sale in the shop, a straightforward comparison of the costs of selling any one identical article in different outlets is impossible. The critics of resale price maintenance talk glibly about efficiency giving rise to lower costs of selling an article without much idea of what they are talking about. The word "efficiency" is treated like an incantation which, uttered with all the respect due to a great economic truth, will open the door to lower prices.[19] The only cost which a retailer really knows is the cost of the shop as a whole and, as we have seen, that cost cannot be converted into a percentage gross margin without making a forecast of the sales of every item in the shop, and even then the margin may be quite inapplicable. More often than not retail prices are fixed by reference to "conventional" margins arrived at from levels of prices and margins of similar goods in the past. There is a persistent tendency for distribution costs to absorb a higher proportion of the retail price, so it is very unlikely that these margins will be too high. Margins on r.p.m. goods probably lag behind the upward pressure of costs. However, if prices *can* be lowered by using a smaller margin, new brands can be offered in competition with

---

19. The following is from Mrs. Christina Fulop (*Revolution in Retailing*, page 40): "Consequently, in the absence of r.p.m., lower costs, reflecting higher efficiency as judged by consumer response, could be translated into lower prices." I hope that the critics, like Humpty Dumpty, pay a word extra when they make it do so much work. Still, judging efficiency by consumer response seems about as sensible as any other way yet described by opponents of r.p.m.!

existing products. In particular, the private brands of multiple retailers provide this kind of alternative.

The way in which pricing has developed in retailing is admirably described by Professor F. W. Taussig in his work, *The Principles of Economics*, (Macmillan, 4th edition, pages 140-141): "In the earlier stages of industrial life and even in many countries which have attained a comparatively advanced stage, retail prices are fixed by a direct process of higgling between sellers and buyers. In the very earliest and most primitive stages, exchanges are few and sporadic and higgling plays a very important part. There is then nothing in the nature of a market price or customary price; and the astuteness of the bargainers, the needs and whims of the moment, even the possibility of physical force, affect the terms of exchange. As the division of labour is extended farther, and continuous exchange and sale develop, something like a market price establishes itself. That market price is likely soon to become a customary price, representing roughly an equilibrium of current demand and supply; yet, though customary, it is likely also to be subject to bargaining, and to vary more or less from the customary rate.

"In the highly developed countries of modern times, bargaining in retail dealings has been almost entirely discarded. The dealer sets a price at which he will sell and at that price the purchaser may take the article or leave it. The tacit understanding is that the price so fixed shall be the current or market price, and that it shall be the same for all customers at the shop. The practice of fixed prices saves a vast amount of time and friction. The purchaser need not be on the watch to discover what other dealers are asking and what is the going price; while, if he is not a marginal purchaser, but is enjoying some consumer's surplus, he need not be on his guard lest the dealer take advantage of his potential demand. The ease of everyday purchases and the efficiency of labour in retail operations is immensely promoted. Retailing on a large scale, conducive as it is to economy of labour, would be impossible without the practice of fixed prices."

The overhead character of distribution costs makes possible an arbitrary and often quite temporary reduction in the prices of a few goods for the purpose of diverting trade away from other distributors. The sale for a time at cut prices of some well-known branded product (say, at purchase price) may be well worth while to a distributor if the total gross margin in money obtained on the additional sales of other products exceeds the loss of the gross margin on the normal volume of sales of that product, because the difference will be equal to an extra net profit. In practice, of course, other distributors react to this discriminatory pricing and, on balance, consumers are no better off.[20]

A manufacturer objects to this kind of price determination because his product is merely being used as a means of selling other products in a shop. This is not his intention in making and marketing the article. He wants it to be sold on its merits at a fair price in competition with alternative makes in locations throughout the market. The more successful the manufacturer has been in building up goodwill for his product and name, the more likely is it that his product and name will be used in this way. The outcome can be that the low prices drive the product from the market for a time as his carefully organised distribution system is disrupted. Just as most countries take steps in anti-dumping legislation to prevent the disturbing effects of allowing overseas traders to dump goods at specially low prices on to the home market, so manufacturers and traders dislike the same thing when it is done by people who live here. Price maintenance is the antidote to price discrimination.

10. Gullible's Travels

What is the consumer's attitude to uniform prices for

20. For full discussion of the methods and effects of discriminatory pricing see *Fair Trade*, pages 20-32.

identical goods in different outlets? The Committee on Resale Price Maintenance set up by the President of the Board of Trade in 1947 under the chairmanship of Mr. G. H. Lloyd Jacob, Q.C., had discussions with the representatives of three women's organisations on this and they consulted their members. The organisations were the National Council of Women, the National Federation of Women's Institutes, and the Women's Co-operative Guild. All stated that they strongly preferred uniform prices for identical articles especially for branded products. It cannot be said that these people were biased in favour of manufacturers or traders and their views ought to be accepted as honest opinions. Yet, some of the critics of r.p.m. are incredulous on the grounds that this was a "somewhat slender foundation made to support later claims that r.p.m. has the approval of housewives".[21] In view of the kind of evidence which these critics will themselves use to support their own case, this is rather like the pot calling the kettle black. For example, a few lines down in the same paragraph we are told that an earlier generation of housewives must have liked price competition very much because they supported the low-price shops!

A preference for uniform prices is understandable. As consumers, we are not expert buyers, and cannot hope to be, except for a few articles which form part of our special interests and hobbies; and even then the process of learning and keeping up-to-date is by no means easy unless firm prices are quoted in the journals and magazines which cater for those interests. In the purchasing departments of large companies, the expert buyers specialise on groups of products, for only in that way can they get to know the details of specifications, sources of supply, and prices. As ordinary consumers we do most of our buying on trust. That is why branded products have grown so much in importance with the rise in the standard of living and the large increase in the range of products on offer. The act

---

21. *Resale Price Maintenance and Shoppers' Choice*, by Prof. B. S. Yamey, page 32.

of selecting any one article from the available range is often difficult enough without having afterwards to do a grand tour of all the shops in a large area to ascertain if the article is on sale at a lower price elsewhere. Having made their selection on considerations of suitability to their needs and pockets, consumers instinctively feel that they have a right to expect the manufacturer of the product to make it available to all consumers at the same price in all shops. No consumer can be sure that he is buying all the time at the lowest prices, unless he has an encyclopaedic and omniscient knowledge of the complete range of products and ratios of prices everywhere; and, of course, he is very pleased when he has a bargain. But when he buys a well-known product at one price and finds it cheaper a few weeks later in the same shop, or in another, he is quick to blame the manufacturer.

The practice in some shops (for example, in the grocery trade today) of offering at cut prices a small number of items varying from week to week makes comparison of prices among shops more difficult and troublesome; and the confusion is worse when hundreds of goods are priced twice with a 'usual' price and 'our' price. Apparently we enter a grocer's shop nowadays to 'save' money and not to spend it!

There is a good deal of loyalty in shopping. People tend to concentrate on a small number of retailers whom they have got to know and trust. The whole idea of what the Americans call 'one-stop' shopping is to make endless journeyings on the part of consumers quite unnecessary; but it tends also to eliminate a deliberate comparison of prices. Once consumers are on the premises, a retailer enjoys some measure of monopoly because consumer knowledge of prices is extremely limited and many goods are bought on impulse.[22] Discriminatory pricing means

22. Professor Yamey avers that "goods bought largely on impulse cannot be very 'basic' or 'essential' ". (*Resale Price Maintenance and Shoppers' Choice*, page 24). Even if this were true, it is difficult to see what relevance it has to the argument.

low margins on some goods and high margins on many others. The argument that this "implies a remarkable degree of gullibility and incompetence on the part of consumers"[23] is not very convincing for it ignores the inevitable limitations of our knowledge of prices and specifications and the desire to make shopping pleasant and spontaneous rather than a deliberate exercise. Shopping should be easy and convenient and not a modern version of the Spanish inquisition. The process of educating ourselves about prices and products is made immeasurably easier if we can be sure that there is only one price for each of the many alternatives being offered.

Experience shows that without resale price maintenance the prices of those goods may go down slightly in some shops but they are likely to go up in others. Moreover the lower margins on those goods in the former shops may well be offset by higher margins on other goods in those shops. This is the technique of discriminatory pricing made possible by the nature of retailing costs. And heavy price cutting can drive a product from the market for a time. On balance the consumer is no better off and may indeed be worse off, because the many hindrances to competition in retailing, already described, provide opportunities for retailers to charge a price higher than that prescribed by the manufacturer if he cannot or will not enforce it. The editor of *Do It Yourself* commented on this in the March 1961 number of that journal: "It is often the case that we receive information of a new British product which we feel has great reader interest, only to find that essential facts, particularly the retail price are missing. What makes it more frustrating is to be told by the manufacturer that he doesn't know the retail price (or doesn't want it mentioned) because the retailer is the one who fixes the selling price! When selling price varies from one district to another, even from shop to shop, no wonder readers get confused and annoyed when they are

23. Professor Yamey in the *Three Banks Review* for December 1960, page 18.

asked for more than the approximate price we were advised to quote." The *Co-operative Review* for March 1960 also gave an example: ". . . a new instant coffee, known as 'Elite', sold by the C.W.S. and the S.C.W.S., is actually being sold at 2s. 6d. a tin instead of at the recommended price of 2s. 4d. The margin allowed to retail societies at the latter figure is ample, and the charging of 2s. 6d. is impossible to justify. Here is a grand opportunity to sell a top quality instant coffee at a price which is no less than 10d. below the market leader. But a few societies must grab that little extra. This kind of thing makes one wonder whether it is really wise to advocate the abolition of individual resale price maintenance."

But the opportunities to raise prices arise also from the way in which the recommended or suggested prices get pushed above the prices prescribed and enforced by manufacturers under resale price maintenance. There is a good example of this in the passage quoted in the footnote on page 25. There we are told that, without resale price maintenance, booksellers could give discounts of 3d. and sometimes 4d. off each shilling of the published prices of new books. This means that the selling prices of a book published at one shilling were really 9d. or 8d. but, in order to stay in business, the bookseller must cover his standing expenses (rent, rates, wages, etc.). If these expenses represent, say, 25 per cent of turnover, the bookseller would need to buy at 6d. if he sells at 8d. The published price unenforced by the publisher could, thus, be about double the retailer's purchase cost; it was also much above the net price subsequently established for books under resale price maintenance.

11. A Touch of Realism

It is quite wrong that a business practice should be damned on the strength of a highly abstract argument erected on unwarranted assumptions. The onus of proof should be on those who point the accusing finger. It is just not good enough to give a practice a bad name, without any evidence, and then suggest a "compromise" to prohibition on the lines of making each industry prove that individual resale price maintenance is "economically beneficial", whatever that means. As usual, this begs a lot of questions. Until the critics can produce better arguments, based on facts, the businessman should be permitted to continue with a practice which is acceptable and very convenient to consumers; which provides manufacturers with a distribution network through which they can sell their goods with the same guarantee against price cutting and disruption that they would have if they owned the outlets—a guarantee enjoyed by the owners of private brands; which safeguards retailers against predatory competition; and which not only does *not* raise retail prices and margins, but provides an effective brake on the upward pressure of distribution costs. If the critics think this is not so, let them prove *their* case.

The idea of setting up a fact-finding committee in the Board of Trade was excellent. Unfortunately, this examination of the questionnaires on which the information was collected suggests that much of it will be opinion; and, in view of the kind of assumptions in the arguments against resale price maintenance, many other facts are clearly needed before a verdict can be given.

In his autobiography, Albert Schweitzer put into words the kind of despair one sometimes feels about economics: "The search for truth in the domains of history and philosophy is carried on in constantly repeated endless duels between the sense of reality of the one and the inventive imaginative power of the other. The argument from the facts is never able to obtain a definite victory over the skilfully produced opinion. How often does what is reckoned as progress consist in a skilfully argued opinion putting real insight out of action for a long time."

But we can try. We can introduce a touch of realism into this dispute.

Percentage of Retail Sales through Multiples and Independent Shops in 1957

Product	*Chain Stores* %	*Co-operative Societies* %	*Independent Retailers* %
Fresh milk and cream	26	38	36
Bread and flour confectionery	22	16	62
Groceries and provisions	26	22	52
Meat	16	13	71
Fish, poultry and game	17	4	79
Fresh fruit and vegetables	10	8	82
Chocolate and sugar confectionery and ice cream	18	4	78
Cigarettes, tobacco and smokers' requisites	10	14	76
Alcoholic drinks	32	1	67
Drugs and toilet preparations	37	8	55
Newspapers and periodicals	11	—	89
Books, stationery and office supplies	30	1	69
Musical instruments, gramophone records and sheet music	12	2	86
Men's and boys' wear	39	6	55
Women's, girls' and infants' wear, and drapery	33	5	62
Footwear	52	8	40
Household textiles	17	9	74
Furniture and bedding	25	10	65
Floor coverings	16	9	75
Electrical appliances and supplies	41	8	51
Radio and television sets	27	5	68
Photographic goods	15	3	82
General ironmongery, tools, gas appliances, china and glassware, garden implements	29	6	65
Jewellery, watches and clocks	22	3	75
Leather and fancy goods, sports goods and toys	27	2	71
Optical and scientific goods	33	6	61
Cycles and accessories	15	1	84
Perambulators	15	5	80

Source: Board of Trade Census of Distribution, 1957.

SHORT BIBLIOGRAPHY

P. W. S. Andrews: "Some Aspects of Competition in Retail Trade", *Oxford Economic Papers*, June 1950. (See also the views of Lady Margaret Hall and Prof. C. W. Efroymson on this paper and Mr. Andrews' reply, in *Oxford Economic Papers*, October 1951.)

P. W. S. Andrews and Frank A. Friday: *Fair Trade: Resale Price Maintenance Re-examined*, Macmillan, 1960.

Sir Henry Clay: "Resale Price Maintenance", *The Journal of Industrial Economics*, December 1954.

Frank A. Friday: "Case for Resale Price Maintenance", *Investors Chronicle*, 1st April, 1960.

Frank A. Friday: "Effects of Resale Price Maintenance", *The Times*, 10th May, 1960.

S. Gammelgaard: *Resale Price Maintenance* (Project No. 238), Organisation for European Economic Co-operation.

John D. Kuipers: *Resale Price Maintenance in Great Britain*, N. V. Drukkerij "Vada", 1950.

Official Report: *Report of the Committee on Resale Price Maintenance*, H.M. Stationery Office, 1949.

Official Report: *Collective Discrimination: A Report on Exclusive Dealing, Collective Boycotts, Aggregated Rebates and other Discriminatory Trade Practices*, H.M. Stationery Office, 1955.

Prof. B. S. Yamey: *The Economics of Resale Price Maintenance*, Pitman, 1954.

Prof. B. S. Yamey: *Resale Price Maintenance and Shoppers' Choice*, Institute of Economic Affairs, 1960.

Prof. B. S. Yamey: "Resale Price Maintenance: Issues and Policies", *The Three Banks Review*, December, 1960.