2

History of Private Labels

THE PIONEERS

Throughout its history, private label has been mislabeled or misrepresented as being cheap in quality. Most private label products suffer this stigma because they are priced lower than the competition. Bargain pricing is part of their identity. The idea of private label frequently is born out of a competitive reaction to high-priced merchandise. Customers assume or are told by the competition that something priced lower represents lower quality. This is far from the truth.

In the nineteenth century, merchants dealing in the mail order and/or retail–wholesale business recognized the need for lower-priced merchandise, but of a high quality. They cut the cost of goods by eliminating the middleman—an importer, jobber, or distributor, for example—ordering directly from a manufacturer or manufacturing products themselves. Other cost efficiencies were introduced, such as buying for cash (for better terms), buying in greater quantities, buying at the right time (for plentiful supplies), and buying with expertise in domestic and international trade conditions. "Satisfaction guaranteed or your money refunded" became the slogan backing private label quality.

Market conditions at the time were not favorable for the consumer. The merchant's responsibilities often ended at the time of a sale. *Caveat emptor* was the watchword for customers. Peddlers of different wares often charged high markups on everything they sold, sometimes exorbitant prices such as a 600% price hike for pepper, blaming it on a cut-off of import supplies or some other excuse. The customer had no way of checking the story. (Scull 1967, p. 31).

It was the beginning of specialization, where the merchant, once a Jack-of-all-trades—jobber, wholesaler, retailer, commission agent, distributor, trader, broker, and importer—was concentrating on one or two areas (Scull 1967, p. 72). For example, the merchant might operate a retail store and/or mail order house.

First Private Label?

One of the oldest private labels is perhaps that developed by Henry Sands Brooks, who opened his first shop under his own name in 1818 in New York City. In advertisements later, he claimed to be the first clothier to sell ready-made garments. Over the years, his shop came to be called Brooks Brothers, carrying a label that became synonymous with the conservative, well-dressed gentleman of the day. Brooks' operating credo was "To make and deal only in merchandise of the best quality, to sell it at a fair profit only and to deal only with people who seek and are capable of appreciating such merchandise" (Mahoney and Sloane 1974, p. 39).

Brooks Brothers adopted a Golden Fleece trademark, a sheep suspended in a ribbon, taken from the symbol of British woolen merchants dating back to the fifteenth century. Many fashion trends were established with that private label. In fact, Brooks Brothers set the pace in men's fashions, borrowing ideas from the Continent: silk Foulard ties, buttondown ("polo collar") shirts, Shetland sweaters, polo coats, and Harris tweed jackets.

Some of its fashion innovations in this century include:

lightweight summer suits with seersucker and cotton cords
solid pink shirts
Dacron/cotton blended shirts
Argyll panel support hose
Brooksflannel lightweight sports shirts.

> Its Famous No. 1 Sack Suit, three-buttoned and single-breasted with natural shoulders and straight hang, has been for about five decades the "uniform" that stamps a man as being correctly dressed.
>
> Brooks was also the first in modern times to sponsor linen crush, Shantung silk cotton cord and other cooler summer suits for men, jackets with odd trousers, and many styles in boys' clothing. It has introduced such items as the Norfolk jacket, the Tattersall vest and the deerstalker cap, and was in great measure responsible for the once overwhelming vogue of the box-cloth spat. More recently it launched a new man-made material and was the first in the world to offer shirts made of Dacron-and-

cotton Oxford cloth, called Brooksweave, and Dacron-and-cotton broadcloth, copyrighted as Brookscloth (Mahoney and Sloane 1974, pp. 36–37).

Today, Brooks Brothers, a chain of more than 20 stores, operates its own clothing and neckwear and shirt plants, which supply most of the merchandise in its outlets. The products are made to strict specifications before they are labeled "own-made."

Some old-time private labels have not endured or at least have diminished in importance. Burried with them are some interesting facts.

For example, it is very likely that one of the earliest private label customers was Abraham Lincoln. Early in his career, while in the village of New Salem, Illinois, Lincoln was a partner in a grocery store that failed, placing him in debt. Then he took up law, becoming an attorney in 1836. Soon afterward, he moved to nearby Springfield, Illinois.

One of his first clients was Jacob Bunn, who had opened his first grocery store, J. W. Bunn & Co., in Springfield in 1840. This operation specialized in retail and wholesale trade, selling many bulk items out of barrels, sacks, casks, kegs, and so on. Patrons could purchase all types of merchandise: sugar, coffee, soaps, rifle powder, nails, brandy, tobacco, paint, etc. Bunn called on Lincoln, a former grocer, to represent the business as its first attorney.

Their friendship grew to a point where later Lincoln called on Bunn to be his campaign manager. In a way, Bunn reciprocated by naming some of his coffee products after his friends: Lincoln coffee and Mary Todd coffee. Bunn also carried other private brand coffees, including Wishbone, Recipe, Golden Age, Cap, Old Timer, and Bunny (after himself). Of all those names, only two, Bunny and Golden Age, have survived as private labels. All the others have disappeared, except for Wishbone, which was sold to Manhattan Coffee Co. and the trademark eventually taken over by Lipton Tea, which now markets Wishbone dressing as a national brand.

J. W. Bunn & Co. evolved into a wholesale grocer first and then in the 1950s moved more into institutional business with its Golden Age, Bunny and other labels. Subsequently, the business converted 100% to foodservice distribution as Capitol-Bunn Co. In 1982, the firm assigned its private labels to a major buying-merchandising co-op, F.A.B., Inc. Norcross, Georgia.

Early Pricing Strategies

Early in the nineteenth century, A. T. Stewart began selling Irish laces in New York City. Out of that business, he established a wholesale and retail dry-goods operation, which by 1862 became the six-story Stewart's Cast Iron Palace—considered by some to be the largest department store in the United States, if not the world. Stewart is credited with revolutionizing the practice of pricing, by establishing a one-price policy and putting a price tag on all his goods. As Scull (1967, pp. 79–80) explains:

> For all practical purposes there was no systematic method of pricing when Stewart opened his business; prices were established by the primitive method of prolonged haggling. Manufacturers and importers bargained for the highest amounts they could get from wholesalers and jobbers. Wholesalers and jobbers put the squeeze on retailers for the last possible dime, and retailers in turn charged their customers as much as they felt the traffic would bear. A prosperous customer was quoted one price—subject, of course, to considerable negotiation—while a less affluent customer was quoted a lower price, also subject to adjustment if the customer had the time and stamina to negotiate. Price lists, if they existed at all, were mere scraps of paper. Customers who were interested in saving money made it a point to wear old coats with frayed sleeves and dilapidated hats when they went shopping.

Another dry-goods merchant in New York City, Rowland Hussey Macy, adopted a one-price policy and also introduced a cash-only policy. Merchants previously had allowed customers the option to buy on easy credit terms. Macy believed that he could cut his profit margin with cash trading and thus sell his goods more cheaply (Scull 1967, pp. 81–82).

In 1858, R. H. Macy & Company started in New York as a fancy dry-goods store. Two years later, the store placed what probably represents its first private label advertisement: Macy's hoopskirts. About this same time, Macy debuted its general trademark, a five-pointed red star. The retailer's basic strategy was low prices (20–50% below the competition) along with heavy advertising, offering customers quality merchandise. To achieve that end, Macy began manufacturing clothing from day one—dresses, shirts, linen handkerchiefs, velvet wraps, linen collars, etc. He also contracted with outside suppliers for some of his private label merchandise, such as Red Star silk or velveteen, and La Forge kid gloves (Hower 1943, p. 164).

By the early 1870s, Macy's operation grossed in excess of $1 million; at the turn of the century, that volume pushed past $10 million. Meanwhile, Macy was diversifying his product line and in the process manufacturing more of his goods with brand names that indicated Macy's production (Ferry 1960, pp. 59–60).

Around the 1890s, Macy's private brands included clothing under the Macy's label and various household preparations under the Red Star label—perfumes, extracts, toilet preparations, tonics and remedies, ammonia, benzine, turpentine, etc. The Red Star logo also appeared on items such as wrapping paper, stationery, tea and coffee, kitchen laundry soap, etc. A sampling of private labels about this time shows these items: Our Own Soap, Star sewing machines, Red Star tea, Straus cut glass, Lily White canned goods, Webster collars, La Forge or Valentine watches, etc. (Hower 1943, pp. 250–251).

In the following century, Macy's private label selection eventually grew to some 4500 different articles sold under the various Macy brands (Hower 1943, p. 402).

A strategy quite different, yet similar, was adopted by Lord & Taylor, founded in 1826 by Samuel Lord. Late in that century, Lord catered exclusively to the "carriage trade" in New York City, with his Lord & Taylor label representing the finest quality. Lower-priced competitors did not change Lord's pricing position.

Private labels started off with a brand identity, pretty much on the same footing as so-called national brands. As entrepreneurs and companies developed products with different names, protected by trademarks, under a national brand franchise, so did some merchants as they developed their own private label lines. A merchant who put his own name on a product obviously had pride in that item.

In 1861, John Wanamaker opened a small men's and boys' clothing store in Philadelphia, selling ready-to-wear clothing at a low price. Over the next decade, as business prospered, Wanamaker was able to begin making demands on manufacturers. Before that, he had to settle for a "seedy quality," which carried no label at all. Wanamaker's buying power was weak; but with larger orders, he began to set his own terms and standards of quality, putting his label on every garment. With that label, he placed the warranty that "the quality of goods is as represented on the printed labels" and "the full amount of cash paid will be refunded, if customers find the articles unsatisfactory, and return them unworn and unimpaired within ten days" (Scull 1967, p. 84).

Society in North America during the nineteenth century was mostly rural. The department store catered to the growing cities, but most trading occurred in the farmlands. Rural regions became the market for mail-order houses, which were started, for example, by A&P, Sears, and Montgomery Ward in the United States and by T. Eaton Co., Ltd., in Canada. Timothy Eaton actually began as a retailer in Toronto in 1883, distributing his first mail-order catalog in 1884, featuring private label merchandise. Eaton established a cash only, no extended credit policy. In that position, he had to offer customers something different to entice them to pay cash, when they could buy on credit elsewhere. Private label merchandise, priced under the national brands but of the same quality, became an important part of this merchandising mix.

Brands Take Root

Inventions and innovations introduced during this time formed the basis for modern retailing techniques. The branded products that first appeared opened new product categories for all retailers.

There was very little brand identity in the late eighteenth and early nineteenth centuries. During the U.S. Civil War (1861–1865), branded soap, cleaning powder, and patent medicine became popular. Soldiers were supplied with Procter & Gamble's Star Candles as well as Procter & Gamble soap. P&G, which was founded about 1837, was really launched as a national brand company when Harley Procter dreamed up an ad slogan for Ivory Soap about 1876: "It floats."

The Colgate-Palmolive Company, New York, which had started into business as a producer of soap, starch, and candles in 1806, got its break in 1877 with the debut of Colgate toothpaste.

Packaged soap powder first appeared in 1845, when Benjamin Talbert Babbitt introduced soap shavings in one- and two-pound pokes. Twenty years later, Babbitt started to package soap individually.

Many different brands catered to gastronomic disorders—pills or powders, for example. Coca-Cola was introduced in 1886 as an exotic medicinal product in the patent medicine field.

In 1847, Smith Brothers Cough Drops appeared at James Smith's restaurant in Poughkeepsie, New York. Smith offered his patrons cough drops to relieve their colds, while his sons, William and Andrew, peddled the product outside. That soon attracted what might be called one of the first "knock-off" products in modern history. Imitators used similar names to confuse the customer. One competitor used the same name, Smith Brothers; another adopted the name Smith & Bros.; and someone introduced Smythe Sisters. As a result, the Smith brothers designed a trademark of themselves with the words "Trade" under William's picture and "Mark" under Andrew's picture. To protect against drugstores putting imitators' brands in glass jars on counter spaces, calling the product Smith Brothers, the brothers in 1872 packaged their product in paper boxes, which perhaps was the first "factory-filled" package introduced by a company. These efforts made the Smith brothers among the first manufacturers to recognize the value of a brand name and modern packaging (Scull 1967, pp. 42–43).

In the late nineteenth century, more branded food products started to appear including Salada Tea, Pillsbury Best Flour, Gold Medal Flour, Ralston Purina animal feed, Kellogg Corn Flakes, Post Grape Nuts Flakes, and Maxwell House Coffee. In 1870, Charles E. Hires developed Hires root beer, which came to national attention at the 1876 Philadelphia Centennial. Hires reportedly became the first soft drink to achieve national popularity through aggressive advertising and promotions.

Young America was catching up with England's industrial revolution. The social and economic structure of society was changing as technology advanced right into this century.

William Underwood of Boston started this country's first food canning operation in 1819.

Jacob Perkins invented modern refrigeration in 1834.

James J. Ritty developed the cash register in 1879.

A patent on the first paper bag and paper bag-making machine was awarded to Luther Childs Crowell in 1867.

Clarence Birdseye developed the basic multi-place quick-freezing process in the 1920s; a new company, General Foods, took over by marketing frozen products in grocery stores under the Birds-Eye label in the 1930s.

Farrington Manufacturing Co., Needham Heights, Massachusetts, introduced "Charga-Plate," a system of credit buying in the late 1920s, first tested in William Filene's department store in Boston.

Wallace H. Carothers of duPont engineered the first nylon stockings about 1940.

Rural America was turning toward the cities; the coming of the railroads and then the invention of the automobile and the airplane changed everyone's life-style. The impact of advertising, evolving from newspapers to magazines to radio to television, molded consumer buying habits. This impact began with the pioneering efforts of N. W. Ayer & Son of Philadelphia, an advertising agency, on behalf of such early clients as Hires root beer, Procter & Gamble soaps, Burpee seeds, and Montgomery Ward. National Biscuit Co. literally took crackers out of the cracker barrel and packaged them in boxes. Ayer's print campaign for National Biscuit Co. in 1899 turned its Uneeda biscuits into a household name.

Early in the twentieth century, the Cream of Wheat Co. began to illustrate its product box fronts, which served as effective point-of-purchase advertising.

Some brands actually debuted as private labels. A beverage chemist, Robert S. Lazenby, introduced Dr Pepper at his Old Corner Drug Store in Waco, Texas, in 1885. The same beginning can be traced with another popular national brand soft drink.

When pharmacist Caleb D. Bradham concocted a pleasing cola drink to relieve dyspepsia (stomach upset) and peptic ulcer, patrons at his drug store in New Bern, North Carolina, dubbed it "Brad's Drink" in 1898. For a short time afterward, it carried that private label until Bradham renamed it Pepsi-Cola and began distribution outside his drug store.

Claude A. Hatcher, owner of Hatcher Grocery Co., Columbus, Georgia, first developed a wholesale grocery trade in 1901. As business grew and spread, Hatcher wanted his local bottler, who supplied bottled drinks, to pay something to Hatcher for handling the products. In 1905, an argument erupted, causing Hatcher to pull away from the bottler and begin producing and bottling drinks under his company's own labels. The first private label for a soda water was called Royal Crown and the first cola drink Chero-cola. In 1959, this operation came to be called Royal Crown Cola Co., taking its name from the company's first private label.

Interestingly, the Rexall name followed an opposite course: private label to national brand. Louis K. Liggett introduced that name through a series of newspaper ads, starting with the letter "R," then "RE," then "REX," and so on. Liggett with that introduction opened his drug store in 1902, selling cod liver extract preparation under the name Vinol, as well as other products. The following year, he organized 40 druggists into sharing the costs of a limited franchise plan, whereby the top drug outlet in each area could receive the full benefits from the co-op advertising money. Each drug dealer, as a shareholder, shared in the profits, both as a manufacturer and as a retailer. From that beginning, Liggett formed the United Drug Co. in Boston where Rexall products were introduced. He began with packaged medicines and a few toiletries, manufacturing the Rexall line from the best materials available, every item sold on a money-back guarantee.

As Liggett's cooperative company idea spread, more members were added and the Rexall product line grew: stationery in 1911, rubber goods in 1912, brushes in 1913, pharmaceuticals in 1914. A Puretest line as well as hospital goods were introduced in 1919. By 1920, Rexall stores were full-fledged drugstores.

The product diversification at Rexall covered some interesting areas: Pearl Tooth Powder, Puretest Skunk Oil, Elkay's Wire-cut Liniment for horses and cattle, and Rexall Itch Ointment for Scabies.

Over the years, Liggett developed many different sales promotions, the first big one centered on Saturday Candy, which was advertised all week but sold only on Saturday. The cost to produce the candy was 40–45 cents a box, and it was sold at retail for 22 cents—a loss leader, but a powerful traffic builder.

Rexall's famous one-cent sales started about 1914, when Liggett, facing stiff competition, looked for a unique selling technique. In Detroit, he introduced a "2 for 1 Sale," offering two items of the same kind for the price of one. This idea—premature then, but effective today—fizzled until he changed his ads to read: "See what one cent will buy!" Customers were charged a penny more for a second item. That savings registered; police were called to control the crowds during one of these sales. Some 60 years later (1974), Rexall changed its one-cent sale to the Two-For Sale.

The Rexall operation eventually came to be called Rexall Drug Company; but when the company was sold to private investors, the new owners eliminated the store franchise program in order to expand distribution of Rexall products. So in 1977, Rexall shed its exclusive ties with Rexall franchise stores, going the route of a national brand.

Of course, many private labels could be called "national brands," even though they have followed a private course, that is, have been and continue to be sold exclusively by a store or group of stores. An outstanding example is A&P, which could be called the granddaddy of the private label business.

A&P's impact on this industry has been profound. Its experience did raise important questions. What percentage of private label should be included in the product mix with national brands? If A&P had been allowed to grow without opposition from national brands and the government, would the consumer be better off today with a dominant chain that undercut all its competitors, offering low-priced, high-quality private label products? Is a dominant chain dangerous to competition, being too powerful in the marketplace? These questions are now academic, because A&P was prevented from becoming the largest private label concern in the United States.

A&P's history started in 1863 as a mail-order house called The Great Atlantic Tea Company, based in New York. Soon afterward, the company diversified into retailing, developing The Great Atlantic & Pacific Tea Company. As news of its success spread, other grocery merchants adopted the "Tea" into their identities—The Grand Union Tea Co. (1872); the Great Western Tea Co. (1883), which was later changed to the Kroger Grocery and Baking Co.; Acme Tea Co. (1894); the Jewel Tea Co. (1899); and so on. These merchants began private label programs by selling their own tea and grinding coffee in their stores.

Even entrepreneur Frank Woolworth was influenced by A&P's success. He picked up the A&P red store front, adding a special golf-leaf gilding in the lettering and the molding. Woolworth also added his own "Diamond W" trademark on the outside of the stores, which in effect became his first private label. Merchandise inside was displayed in bulk without the benefit of labeling or packaging.

A&P's empire was built on a simple premise: low price, low profit margin, high turnover. When George Gilman and George Huntington Hartford ventured into the tea trade, they sold that commodity at wholesale prices or "marked at two cents per pound above costs." As expert importers and wholesalers, they were able to bypass the importer, who collected nearly 100% profit on teas. The partners first established four private brands: Cargo (72–78 cents a pound), High Cargo (80–85 cents per pound), Fine (87–90 cents per pound), and Finest (92–95 cents per pound). Hartford also developed the first economy brand of private label, called Thea Nectar. This was a black tea, made of a mixture of leftovers. At first, the product was not advertised as a tea, but as a tea product. "The product was cheap to make, profitable to sell, and it had the added advantage of using what was formerly wasted. It was an immediate success" (Hoyt 1969, p. 36).

As competitors copied this format in the mail order business, the partners launched the Great Atlantic and Pacific Tea Company to tap the retail trade. Tea again was their mainstay product, but soon other items were added, such as butter, sugar, and coffee. In 1882, as public taste for coffee grew, Hartford, then in full charge of the firm, gave coffee its brand name, Eight O'Clock Breakfast Coffee, packaged in a red bag, representing A&P. The business continued to grow to the point where A&P referred to itself as "the largest importer and retailer in the world," around the 1880s. At that time, the company started to manufacture its own baking powder and baking soda.

Opposition existed from day one. First the tea merchants were up in arms, and then local grocers cried "unfair competition" from the chains—from A&P and, to a lesser extent, from Grand Union. In 1900, A&P's sales climbed to $5.6 million.

"While another tea company might have figured a 50–100% markup on costs, the secret of the growing volume of A&P's sales was indeed the maintenance of low profit and high volume" (Hoyt 1969, p. 92).

The A&P slogan of the day was "Where economy rules." Its variety of goods was increasing: spices, soups, canned goods, soaps, and packaged products appeared on the shelves by 1904.

Because the housewife of the day was not considered price-conscious, A&P relied on premiums and trading stamps as traffic-builders. But times were changing.

John Hartford, son of George, tested what could be called the first no-frills box store. He opened a small store around the corner from a typical A&P. The test store opened without fanfare, using $1000 in cash for its opening stock of goods, $1000 cash for buying and emergencies, and the same amount for equipment. A manager-clerk ran the operation. "The cash-and-carry store made no deliveries and gave not one cent in credit. . . . It did not even have a name or a sign. It was just a store whose windows were loaded with groceries at cheap prices. And in six months, the little store around the corner from the big A&P put the larger store out of business" (Hoyt 1969, p. 102).

That success helped launch A&P Economy Stores, chopping away the frills of the premium stores. The company was opening stores at a rate of three a day or up to 1600 stores in two years.

Its policy of price cutting got A&P into trouble with the Cream of Wheat Co., when the latter insisted on setting its prices: Wholesalers were asked to charge $4.50 per case to retailers, who would charge its customers (the consumer) 12 cents a package. When the branded manufacturer cut off supplies, A&P continued to pick up product from jobbers at the wholesale price but found it was losing money by selling packages at 12 cents each. The retailer then sued the supplier under the Clayton Antitrust Act, charging restraint of trade and monopoly. But A&P lost the case; the result was that other brand manufacturers—Campbell Soup, Bon Ami, and others—established their own prices to be held at retail. (Hoyt 1969, p. 106–107).

Hartford's solution was to adopt a store brand in those essential products and push that private label. This offensive strategy moved A&P more into manufacturing bread and groceries. The Cream of Wheat case occurred about 1913; soon afterward, A&P established the Quaker Maid Company to can salmon and evaporated milk and to produce jams, preserves, cereals, and bread. Another subsidiary, the American Coffee Corp., was organized in 1919. Also, A&P added meat markets to its stores.

The idea of manufacturing products led many merchants into the private label business. Bernard H. Kroger began the Great Western Tea Co. in 1883, stocking goods but also packaging coffee and tea in the store's back room. Kroger also carried sauerkraut and pickles made by his mother. He is credited with being the first retailer to operate bakeries, selling a loaf of bread at 2 1/2 cents—a bargain with the quality guaranteed. He also was the first to introduce meat departments into his grocery stores in 1904.

Kroger incorporated his operation as the Kroger Grocery & Baking Co. in 1902. By then, he had begun expanding into other private label items, secured from outside suppliers. Some of the private brand names he adopted included variations on his name as well as the names of different parts of Cincinnati, where he based his operation. For example, "Avondale" became a brand named after a suburb and "Country Club" came from the Cincinnati Country Club. Eventually, Kroger's manufacturing effort helped to make his operation today the fifth largest retailing firm in the United States and the second largest supermarket chain, operating more than 25 processing facilities, out of which two-thirds of its more than 4000 private labels are produced.

There is an interesting case where a manufacturer was led into retailing, which ultimately resulted in a parting of the ways between its national brand and private label line.

Washburn Crosby Co., a grain miller, began operations in 1880 with the debut of its premium Gold Medal flour. The firm also became involved in a chain of provisional grocery stores early in this century. Its operation, St. Anthony and Dakota Elevator Company, charged with buying grain from farmers, also sold a few groceries, as well as lumber and "Red Owl" coal. Its first grocery food store, under the Red Owl name, opened in Rochester, Minnesota in 1922. That led to the development of a chain of stores, copying the success of eastern chain stores. Later in the 1920s, there were nearly 200 Red Owl food stores in business.

But in 1928, Washburn Crosby and other millers decided to form the conglomerate General Mills; and FTC rules required that Crosby spin off the Red Owl grocery business.

In subsequent years, Red Owl Stores, Hopkins, Minnesota, has grown into a network of more than 360 stores in six states, including both company-owned and independently operated units, all using the Red Owl name and its private label stock of more than 2000 items. Red Owl also continues as a manufacturer, operating its own processing and manufacturing facilities, involving such areas as baking, coffee roasting, prepared foods, candy and snacks, and meats.

Ward/Sears Quality Standards

Pioneers like George Hartford and Barney Kroger in the grocery business and Rowland Macy and John Wanamaker in department stores set high standards for their own labels. They were ridiculed by their competition. How could anyone sell quality merchandise at a lower price? The same reaction was faced by Aaron Montgomery Ward and Richard Sears in the development of their strong private label lines, first in the mail-order business and then eventually in retailing.

When Ward entered the business in 1872, his idea—offering customers honest treatment and quality general merchandise at wholesale prices—was labeled "outlandish." Ward overcame farmers' skepticism about sending their money for merchandise advertised through the mail by offering them a money-back guarantee.

In Ward's Centennial report, written by Frank B. Latham, an account is given of Ward's sewing machine, "The New Home," costing $26 by mail order, compared to $50 when sold by the competition at retail. The Singer Sewing Machine was perhaps the first household appliance that met with sales success in the United States. But local agents of sewing machine makers, seeing the Ward advertisement in its catalog, accused Ward of selling "cheap, second-hand machines." Ward answered them:

> Our machines are all new and have the latest improvements. . . . Our New York Singer Sewing Machines are exactly like those made by the Singer Manufacturing Co., excepting for trademarks; hence it is obvious they are just as good, and we can sell them cheaper. . . . It has long been the practice of most sewing machine manufacturers to sell their machines through local agents only, thus forcing the purchaser to pay the retail price. We have worked against this monoply for years and have furnished thousands of machines at 25 to 50 percent less than the retail prices. (Ward 1972, p. 20).

Richard Warren Sears started the R. W. Sears Watch Co. in Minneapolis in 1886, then moved to Chicago (Ward's home base), joining partner Alvah Curtis Roebuck to build a similar mail-order business, bargaining with suppliers for the lowest price with the promise of volume purchases, passing the savings onto the farmer. In the beginning, most items sold by Sears, Roebuck and Co. were Sears' own products; but very few store brand names were used.

As Sears and Wards developed their businesses, resentment from local merchants for a time forced both mail-order houses to send out their catalogs and goods in unmarked packages to protect customers. In its 1902 catalog, Sears explained:

> For the benefit of merchants, manufacturers, tradesmen and others, who, knowing they can buy from us at much lower prices than they can buy elsewhere . . . we have decided to leave our name and address off from every article we sell, so that even though the illustration may show the imprint of our name and address, it will not appear on the goods you get . . . . Remember our price to the storekeeper is exactly the same as to the consumer, and the same whether you order one article or one thousand, our aim being to protect every buyer and furnish merchandise of the highest standard of quality at much lower prices than it can be had from any other house. (Sears 1902).

About 1900, Sears began to outpace Wards, with sales topping $10 million, almost $2 million ahead of Wards. There is really no documentation on how Sears began its program of private brands. In its 1896 catalog, some items were listed generically or with brand names (the Western Star Washer, Schmuck's mop wringer) or with a manufacturer's name (Cline's Improved Steam Washer, manufactured by Seever Co., St. Louis, for example). In the 1902 catalog, some national brand items were included, such as Cracker Jacks, C. Rogers & Bros. silverware, and Colt firearms, but the majority of items belonged to the Sears family of labels.

In the 1902 catalog, a number of private brand lines started to appear. For example, Acme was a trademark used for at least 15 different product categories, including violins, clocks, buggies, carpenter tools, ranges, forges, and parlor heaters. In the descriptive copy, Sears talked about its Kenwood name, famous since 1890 for grade wheels: "An imitation of this registered name plate of the celebrated Kenwood Wheel is intended to deceive." The copy also explained how Sears took over the output of the Kenwood factory and became sole selling agents for the Kenwood bicycle as well as the wheel, which formerly was sold only through specially appointed agents and "always at the highest price." Sears also plugged the Kenwood name into its lines of cameras, plows, windmills, and hay loaders. Filled with folksy dialogue, describing each item, the catalog contained more than 1160 pages, which would convince any reader of the truth of Sears' slogan: "We Sell Everything." The catalog called Sears, Roebuck and Co. the "Cheapest Supply House on Earth, " adding the phrase, "The Great Price Maker," followed with a punch line, "the real value of this book is plainly shown in every price quotation."

This "Cheapest Supply House" offered little that could be considered cheap in quality. For example, the catalog listed gold-filled watches with a 20-year guarantee, "strictly high-grade" cameras, pianos, and organs with a 25-year guarantee, and the like. All merchandise was sold with a money-back guarantee.

Sears' prices were "cheap." The prices were listed as "beyond compare." Sears explained how this pricing was achieved with, for example, the Long Range Winner, a $3.98 rifle, reduced from $5.50. The copy explained: "How we make the price $3.98. We own the factory in which these guns are made and control the entire output. The cost to us is gotten down to merely the cost of the raw material and labor, and to this we add our one small percent of profit."

Shirts in the catalog carried the "S-R & Co." label in illustrations. In sewing machines, models were sold under a number of store brands: Minnesota, Howard, Burdick, New Queen, Edgemere, and Seroco. The last brand, Seroco, also appeared on refrigerators. Another private label used was Gem, appearing on organs and Gramophones.

In its drug department, Sears included a few questionable items. Under the "Sure Cure" label, there were cures for the tobacco habit and for drunkenness. Also, the 1902 catalog listed items like Dr. Rose's obesity cure, a cure for opium and morphine addiction, and a remedy for sleeplessness. There also was a 20-minute cold cure that "never fails." For the ladies, Sears offered a Bust Cream "unrivalled for enlargement of the bust."

Montgomery Ward, as the first mail-order house, took a leadership role in setting up a testing lab to assure that its customers got what they paid for. Ward's lab was established late in the nineteenth century at a time when controls over foods and other products were not that effective. About 1905, Sears Laboratories was in its embryonic stage when the company began cracking down on quality control. The first lab, opened in 1911, came to be called the "watchdog of the catalog," suggesting minimum standards for some merchandise, spot-testing mail order merchandise, testing Sears products against the competition, and helping to develop new products.

In Canada, T. Eaton Company Limited established its Product Research Bureau in 1917, which began by developing standard sizing systems for clothing. Its research work predated the efforts of the consumer movement in working to improve performance standards of consumer goods.

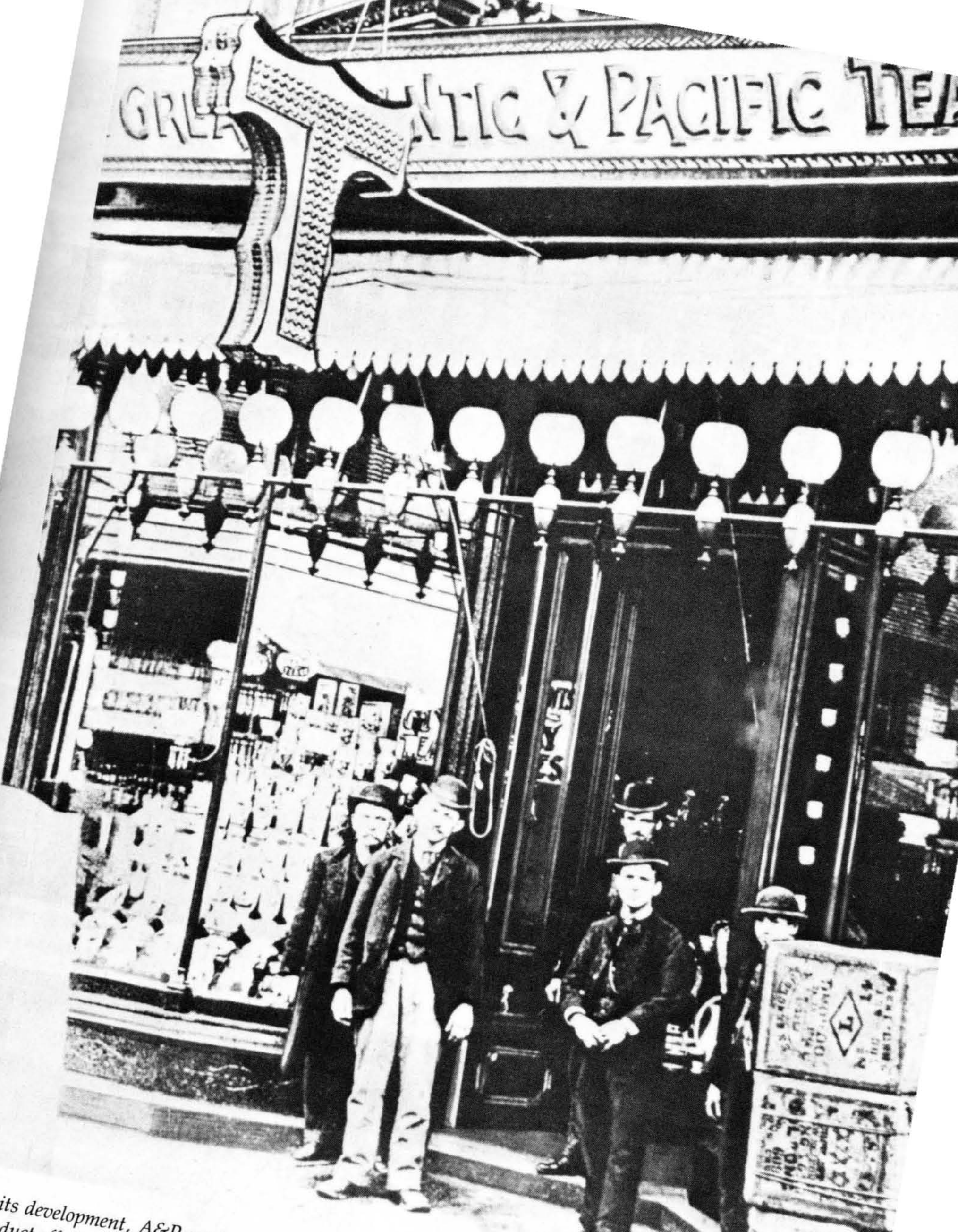
QUALITY DILUTED

The concept of private labels, as conceived by pioneering giants in the retailing field, was founded on the principles of quality at a lower price, representing value for the customer. Generally speaking, in the first half of the twentieth century that concept was weakened to a low price image only. In recent decades, the old concept—low price plus quality—has

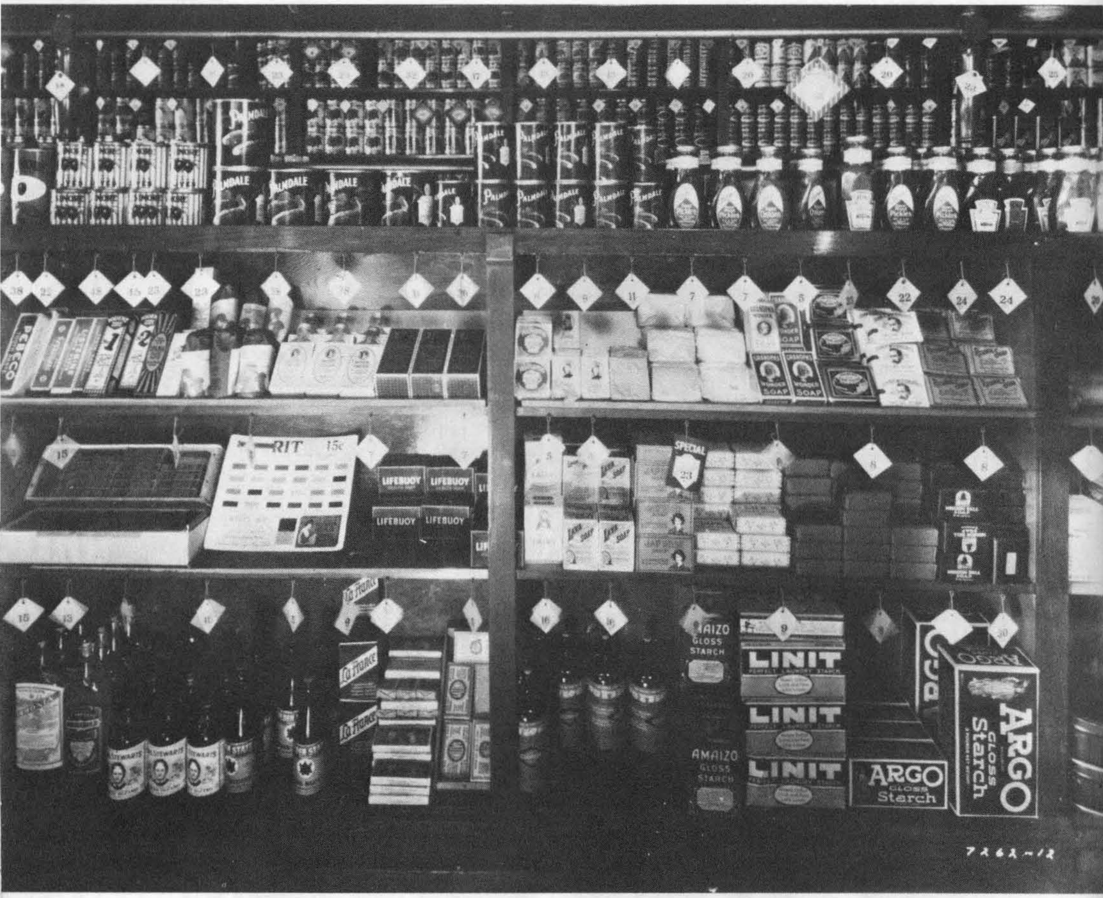
Product by the sackful is ready to be loaded on this horse-drawn wagon from an A&P store in New York City. The store front advertises its name and product selection.

This interior look at a turn-of-the-century A&P store shows a full wall of dishware, lamps, bowls, etc. Attractive wall pictures of horseback riding appear on the right along with limited displays of coffees, teas, and baking powder. In the store rear, a banner advertises Fancy A&P Elgin Creamery Butter.

When A&P was involved in the retail and wholesale trade, during its formative years, it was not uncommon to see crates, sacks, and barrels of its staple products—teas and coffees—piled up in front of the store. Note the Victorian touches of gaslights and elaborate chandeliers. Colorful posters out front advertise the far-off countries where the coffees and teas are purchased.

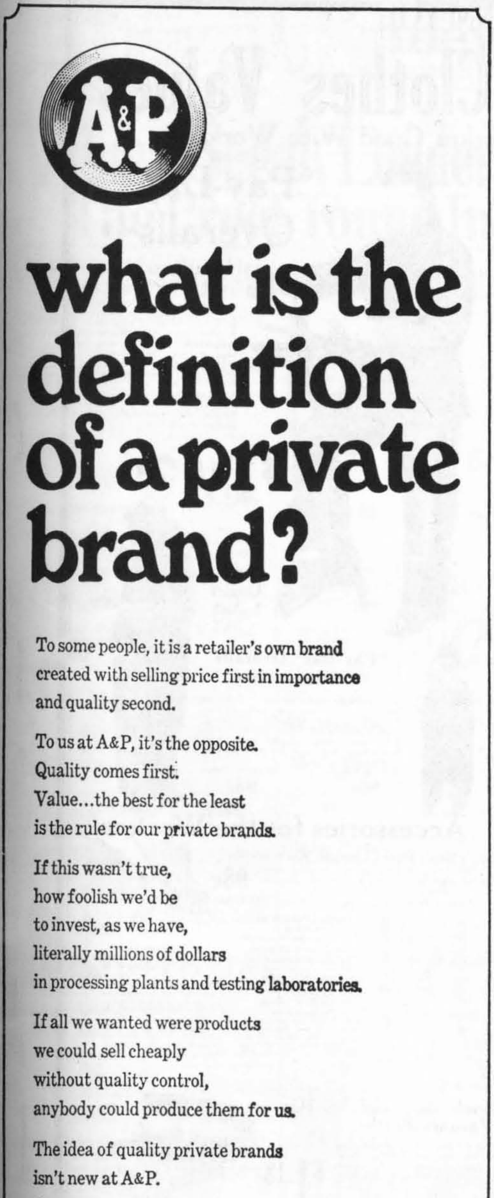


rly in its development, A&P used a "T" logo to identify its ior product offering—teas. Gentlemen of the day pose out front. pping carts are from the S.S. Bengloe.



National brands appear to dominate shelfing in this Piggly Wiggly grocery store around 1925. The retailer innovated with patented swinging price tags on each shelf.

Two old private labels, sold by Bunn Capitol Grocery Co., Springfield, Illinois, have since bitten the dust. The Wish Bone brand actually was sold to another company and eventually became a national brand.



A&P

what is the definition of a private brand?

To some people, it is a retailer's own **brand** created with selling price first in **importance** and quality second.

To us at A&P, it's the opposite.
Quality comes first.
Value...the best for the least
is the rule for our private brands.

If this wasn't true,
how foolish we'd be
to invest, as we have,
literally millions of dollars
in processing plants and testing **laboratories.**

If all we wanted were products
we could sell cheaply
without quality control,
anybody could produce them for us.

The idea of quality private brands
isn't new at A&P.
As a matter of fact,
it's one of our oldest policies–
and by golly, we're proud of it.

Are A&P Private Brands a **good reason**
for shopping A&P?
They're one of many.

A 1966 newspaper ad, placed by A&P in the New York Daily News, defines private label not as a price brand, but one of quality and value. This same message was picked up late in the 1970s by other retailers and wholesalers for their private labels.

This apparatus found in the old Eaton Lab served to test abrasion effects on different products, measured by the impact of falling sand.

In this 1927 advertisement, J.C. Penney stresses value and quality in its selection of work clothes under such labels as Pay Day, Big Mac and Nation-Wide.

"where savings are greatest"

WORLD'S LARGEST CHAIN DEPARTMENT STORE ORGANIZATION

J.C.Penney Co. INC. DEPARTMENT STORES

A NATION-WIDE INSTITUTION

RELIABLE QUALITY GOODS ALWAYS AT LOWER PRICES

618 and 620 Kihekah. Pawhuska, Oklahoma.

Values Speak Louder Than Words
The Proof Found In Our Store!

Men's Socks
"Automatic" Brand

Well made and very durable, in black and cordovan, ... seams in heel and toe.

15c

H. C. S.
Fine Gingham

Priced Low!

18c.

New Cretonnes
For Many Uses

19c to 69c Yd.

When In Doubt—
Linen Finish Fabric for...

This New Marathon Hat
Has the Concealed Welt Edge

"The Radium," as pictured, has grace of line and balance of design found only in hats of character and individuality.

The Radium finish gives lustre; also there is the concealed welt edge brim so new and attractive.

Richly satin lined. Shown in the season's newest colors—nut, pearl, steel. A feature value at—

$3.98

"Let Us Be Your Hatter"

Leather Belts
For Men and Boys

49c to 89c

"Honor" Is Fine Muslin!
Our Exclusive Brand

For Supreme Quality, You Want "Honor"

16c

18c

"Valet" Auto Strop Razor
With Blade, Case and Strop

A Safety Razor that makes possible an exceptionally fast shave; that is clean, sanitary and above all else can be stropped to a keen edge very quickly. Complete for—

25c

For Razor, Blade, Case and Strop

Men's Sturdy Work Shirts
At An Unusually Low Price

49c

Well-made, standard-size, of Indigo-Blue Chambray, with full-length sleeves, one pocket and four-button front.

Notions
For the Family

4c. and 8c.

Suits That Win
With Go-Getters

$24.75

Full Cut English Pants
For Young Men

$4.98 to $7.90

English Corduroy Pants

$3.98 to $4.98

Odd Dress Pants

$3.98 to $5.90

Men's Union
Suits for Fall

$1.49

Men's "4-for-1" Hose
If You Want Value—Here It Is!

An extra fine quality heavy-weight, full mercerized lisle sock with extra heavy heel, toe and double sole.

Carefully made according to our high standards. A most exceptional value in spite of the low price—

4 Pr. $1.00

Gladio Percale
Variety of Patterns

15c

Young Men's Top Coats

A loose, easy box coat for cooler days with the tang of Autumn in the air. An unusually good value at—

$22.50

Supreme Shoe Savings
For Men, Women and Children

Our Obligations to You and to Others

The saying, "goods well bought are half sold," tells only a part of this Store's story.

Our obligation to our customers does not end with the actual purchase and sale of goods.

Every purchase you make from us must be the best from the standpoint of quality and price. Large volume buying for our hundreds of Stores assures greater values than are ordinarily to be had.

Each sale in this Store must carry with it absolute satisfaction to the customer. Our responsibility does not end until you are finally pleased.

J.C. Penney Co.

"Pay Day" Overalls Win!
Big Value! Union Made!

$1.39

Union Label on all "Pay-Day" Overalls

Boys' Sweaters
Shaker and Jumbo Knit

$1.49 to $4.98

Majestic Garters
For Men

25c to 49c

With the Tang of Autumn
Come the New Waverly Caps

$1.49

"Let Us Be Your Hatter"

School
For the
Everything Com...
This Feature Lo...

Here's Our Offering

See Our W...

$1.98 to $4.9...

"Big Mac" W...
Real Shirts for Re...

A J.C. Penney store in Pawhuska, Oklahoma, advertises some old-time private labels, such as Pay Day, Big Mac, Honor, Valet, and Automatic. The guarantee of value is backed with this statement: "Every purchase you make from us must be the best from the standpoint of quality and price. Large volume buying for our hundreds of stores assures greater values than are ordinarily to be had."

In its formative years, Walgreen produced many different products in its laboratory, almost every item carrying a different label. This display shows names such as Po-Do talc and brushless shave, Saybrooks yeast and iron tablets, K.X. salts, Kel-Dent dental powder, Orlis mouth wash, Keller wine tonic and cough syrup, Hillrose K lotion, etc. Only one product, aspirin tablets, carries the Walgreen's name. Today, the reverse is true: most Walgreen products carry the store name.

In 1917, the T. Eaton Company, Limited, of Toronto established a Research Bureau with its own laboratory equipped with the latest scientific equipment—a far cry from today's lab devices, such as infrared atomic absorption, gas chromatography and spectrophotometric apparatus, as well as sophisticated mechanical and electronic instruments. This early mechanical device tested snags in knitted fabrics using a spiked metal ball.

Old labels under the Ecco label show how Stop & Shop's private label packaging developed. Note the new label (top left) that advertises "no sugar added."

In Sears' first retail stores, opened in 1925, shoppers could examine the company's private label stock first hand without depending solely on the Sears catalog.

been reinstated. Of course, not all retailers can be accused of dropping their quality standards in favor of a price image.

In the competitive struggle against national brands, which emerged as category leaders, many private labels began to shed their emphasis on quality. At least, quality was perceived to be not as important as price. With strong advertising support, the national brands convinced consumers that brands offered the best quality. Private labels, without the advertising clout, had to fall back on a lower price sell. Also, national brands often conducted price wars in different market segments, forcing retailers to adopt more private label merchandise to recoup eroding profit margins. Overall, private labels were left with primarily a price image and as a result assumed second-class status in the marketplace. A follow-the-leader strategy evolved, whereby private brands were forced to skim off sales from the bargain shopper.

Private labels began to copy the national brand leaders in different product categories, which in some cases did not always represent the top quality advertised in the media.

Why was quality ignored so early? Stanley Marcus, former chairman of Neiman-Marcus, a quality private label retailer, offers some interesting theories in his recent book, "Quest for the Best" (Marcus 1979).

Marcus argues that as a business grows, management's personal involvement is diverted from "vital areas" such as product quality and service into administrative, financial, legal matters. The entrepreneur, who puts his name on the product, has pride in that product; the chairman of a corporation has pride in bottom line profits. Pride in a quality standard can make the independent businessman temporarily settle for lower profits; but the corporation executive does not think that way.

Marcus further argues that as small companies have grown or been absorbed by public firms, "proprietor ownership" has been replaced by professional managers who know management and finance, but have little specialized expertise in their industry (Marcus 1979, pp. 12–15).

The private label industry is crisscrossed with different attitudes or philosophies about how to position and market private brands. As such, retailers' attitudes and understanding about quality vary from operator to operator. No two programs are the same.

BUYING CO-OPS

There is no question that the pioneering merchants were getting bigger; their success attracted others to the growing retail business. Smaller merchants, to stay competitive against the more successful, lower priced chains, banded together into buying co-ops for greater purchasing power.

As early as 1897 in Canada, a Toronto department store conducted a "cut-rate" sale of nationally advertised drug products. Retailers there had begun using the loss leader technique to draw in customers. Local pharmacies to protect themselves formed a buying club and in 1904 incorporated that firm under the name Drug Trading Company Ltd., selling all drug lines at manufacturers' list prices. Since their efforts did not stop outsiders from gaining market share in the drug business, the independents formed an Independent Druggist Alliance in 1933 to inform the public through promotions about their competitive pricing. It became necessary to underscore the savings with their own private label line under the I.D.A. label, featuring drug products produced by their newly acquired Druggist Corporation Ltd.

From a modest beginning in 1901, Charles R. Walgreen, Sr., R. PH., started a drugstore in Chicago. Some nine years later, Walgreen began manufacturing his own line of drug products. This move allowed him to insure high quality, while offering his customers a lower price than asked for comparable merchandise sold elsewhere. Evenutally, Walgreen expanded production into his own brand of ice cream, a richer product with a higher percentage of straight cream.

Walgreen was not oblivious to the success of chain stores. In the Seventy Fifth Anniversary Report of the company (Gamm 1976), an account is given of its founder joining with 15 other noncompeting druggists in Chicago's South Side to launch the Velvet Buying Club (1911–1912), velvet connoting a profit. Their group was named the Federated Drug Co. in 1914 and, two years later, the seven-store Walgreen chain was incorporated. Its anniversary report also notes: "Where we once made a handful of drug store products with siphons, funnels and cooking pots, we now operate two modern manufacturing laboratories annually producing 275,000 gallons of bubble bath, 180,000 dozen bottles of shampoo, a half million cans of shaving cream, and over a billion vitamin tablets. More than 500 different Walgreen products were manufactured in our labs last year (1975)."

Walgreen's 1975 private label sales from manufacturing topped $40 million (at estimated retail), up 50% since 1970. Today, its private label program features 400-plus items sold in about 740 stores, covering high-quality health items, beauty aids, and household products. Walgreen claims to be one of the largest private label manufacturers in the world.

Independent grocers also were outpaced by the chains. The small mom-and-pop stores often were tied to a wholesaler, paying middleman costs, while the chains purchased directly from manufacturers and processors or produced their own products. As a result, the chains could pass their savings on to the customer with lower prices, prices that the local retailer could not meet. Chains became an attractive vehicle for growth.

The chains developed on their own power (A&P, Kroger, Grand Union) or through mergers (the American Stores Co., Safeway Stores, Inc., Lucky Stores).

In 1917, the merger of five independent retailers, collectively representing 1223 stores, formed the American Stores Co., Philadelphia. Together, the Acme Tea Co., James Bell Co., George M. Dunlap Co., Robinson & Crawford, and S. C. Childs Co. had sales approaching $50 million yearly. The partners, who traced their origins back to the last century, carried their own private labels, some of which were retained, while new brands were developed under the ASCO label, an acronoym of the company. In 1922, the company purchased a cannery, putting canned goods under that label, too. Over the years, its private label program developed into new product categories. An outstanding example was its Louella Butter, named after a town in Pennsylvania, which became the first sweet cream butter to be packed and widely distributed in the United States.

Safeway Stores, Inc., Oakland, California, traces its founding back to when Marion Barton Skaggs started into the retail business in 1915 in American Falls, Idaho. Ten years later, Skaggs operated his own wholesale operation in the Pacific Northwest. But it really was in 1926 that Safeway's history began. That year marked the merger of Skaggs' 428 retail stores with Sam Seelig's 322 stores, based in Southern Califronia. (Seelig a year earlier had renamed his operation Safeway Stores.) Their merged company had total sales of $50 million, serving 10 northwestern states eastward to Nebraska.

Another group of six independent grocers banded together in 1931 to form the Peninsular Stores, Ltd., San Francisco. Four years later they launched their first Lucky Store, which formed the basis for the Lucky Store chain.

Against these emerging giant chains—not to mention A&P, which in 1926 commanded a sales volume of $547 million from nearly 15,000 stores—it's not surprising to see that independent grocers grouped together for survival. One of the first retailer-owned wholesale buying groups was formed by 15 independents in Pasadena, California, in 1922, called Certified Grocers of California, Ltd. Through direct buying, these grocers could share in wholesaling profits. They merged with another grocers co-op in 1928 and the following year purchased Walker Grocery Co., pushing their volume to about $2.7 million. Over the decades, Certified has developed into a strong wholesale grocery distributor with an equally strong private label program. Its Springfield label was launched about 1955, and since then its program has expanded to include the Gingham, Special Value, Prize, and generic labels, together accounting for more than 1500 items.

The largest voluntary food co-op in the United States, IGA, Inc., of Chicago, a wholesale organization now serving more than 3300 IGA food stores, was organized in 1926 as a reaction to the chains. J. Frank Grimes, an accountant involved with wholesale grocery accounts, met with some 69 retailers in Poughkeepsie, New York (home base of W. T. Reynold & Co., wholesale grocers) to form an Independent Grocers' Alliance (IGA). United, they could centralize their purchasing and price their products competitively against the chains. These retailers initially adopted the "Acorn" trademark, which was soon dropped for the IGA logo. Their first IGA labels covered items like cake flour, nut margarine, coffee, tea, and canned goods. Recently, IGA stores' combined sales place that group as the fourth leading food retailer in the United States. The IGA private label line has literally become a national brand with some 2500 items, covering more than 40 product categories.

Mr. Grimes' success with IGA took him to Canada, where he worked with another group, representing 50 independent druggust in the Ontario Province. In 1932, these druggists, belonging to the Drug Trading Company buying group, developed a merchandising and advertising plan called the Independent Druggist Alliance (IDA), a voluntary organization of Drug Trading members. Their objective was to gain public awareness through newspaper advertising and circulars and through and IDA private label program. Today, the group covers 475 drug stores, offering some 150 IDA items, which represent about 10% of store sales.

Manufacturing and distribution strengths helped make some of the co-ops and many more of the chains powerful. These strengths are a key factor in Safeway's success, pushing its 1926 $50 million volume up nearly 300% to $15 billion today, making it the leading supermarket chain in the country. A&P's 1926 sales volume was 10 times that of Safeway; yet today, A&P's volume is barely half of Safeway's volume. What happened to make A&P lose its position to Safeway (and to Kroger)?

There are a number of reasons that A&P lost position, but one of the primary reasons is its policy on private labels. A&P was premature in merchandising and marketing its own brands both offensively and defensively, at the expense of national brands. The chain met resistance at all levels: the competition, the brand manufacturers, and even the government.

Initially, A&P operated on the policy of a small profit—a 2.5% margin—and a large turnover of goods. When A&P lost its case against the Cream of Wheat Co. in establishing prices at retail without a price cut, A&P retaliated by introducing its own brands and pushing them aggressively.

That led to more manufacturing activity: the Quaker Maid Co., the American Coffee Corp., etc.

In the 1930s, after the Depression, A&P, which was then decentralized into six divisions, found itself working on higher profit margins and lower sales. Its buying power was too much for the independents, who were forced to organize into buying groups. In 1934, the Federal Trade Commission, at the request of the National Association of Retail Grocers and other trade groups, began investigating chain stores. The independent merchants, supported by Representative Wright Patman of Texas, looked upon A&P (and other growing chains) as manufacturers, producers, wholesalers, and retailers—an unbeatable combination against the small retailer. In 1936, Congress legislated against price differentials with the Robinson-Patman Act, "which forbade manufacturers or producers to give discounts, commissions, advertising allowances, brokerage fees, and more favorable ('discriminatory') prices unless these could be justified by savings to the manufacturer or producer in his own costs."

The upshot of this ruling was that A&P could no longer get national brand allowances, forcing A&P to mark up its merchandise. A&P reacted by continuing to stock the national brand but positioning its A&P brands right next to it. The American housewife was given a choice, in which the private brand was several cents cheaper than the national brand.

"So A&P's advertising changed. Soon the plan was to feature Ann Page salad dressing, instead of Best Foods or Kraft Miracle Whip. It was Nectar Tea (modern successor to Thea Nectar) instead of Lipton's; Rajah mustard; Ann Page catsup; Iona pork and beans; A&P bread; and Sunnyfield chickens. When products other than A&P's own were advertised, they were usually listed simply as pure lard, cane sugar, pink salmon, and salt" (Hoyt 1969, p. 169). These first ads appeared in September 1936 with A&P's own coffees and bread featured. The chain also began publishing a new monthly magazine, *Woman's Day*, expressly for its private brand advertising. Of course, A&P suppliers could also advertise their brands at a page rate of $1125.

At one time, John Hartford also considered selling out the A&P retail stores, staying in just the manufacturing and wholesale businesses. This move would have converted all its private brands—Ann Page, Jane Parker, Sultana, Iona, Sunnyfield, and so on—into national brands (Hoyt 1969, p. 169).

It was aggressive private label merchandising, an idea whose time had not yet come. In 1930, Hartford was quoted: "We do not attempt to push our own brands. We leave it to our customer to buy what they want. Of all the food products we handle, only 10 percent comprise private brands, which may be regarded as strictly competitive with national labels" (Hoyt 1969).

In the new advertising strategy, introduced in 1936, one of the first price-comparison ads of private label was introduced: "The A&P stores in New Orleans listed in parallel columns fifteen nationally known brands of food products against fifteen similar products manufactured under A&P lables. The prices of the national brands added up to $2.40; the prices of the A&P brands added up to $1.70. 'Compare! Save 29 percent! shouted the handbill" (Hoyt 1969, p. 178).

The president of the Associated Grocery Manufacturers of America was furious over the ad, charging A&P with unfair competition. John Hartford actually was forced to admit to a "regrettable" mistake (Hoyt 1969).

(Some 45 years later, retailers began using this "innovative" ad strategy, comparing their private label brands against the national brand prices.)

Nevertheless, A&P continued to build customer loyalty around its own brands. By 1940, its volume passed the $1 billion mark, with private label sales climbing from 15 to 20% (in 1936) up to 25%. Since A&P realized high profit returns from its manufacturing operations, its stores were encouraged to promote private brands.

"These private brands were sold at a considerable profit in every case, and still they were cheaper than comparable national brands, as the comparison in Table 4 submitted by the A&P Central Division showed (Hoyt 1969, p. 180).

Table 4

A&P Brand	Standard Brand
Ann Page salad dressing—23 cents	Miracle Whip—32 cents
Sparkle gelatin dessert—3 for 10 cents	Jello—3 for 14 cents
White House milk—4 for 25 cents	Carnation milk—4 for 27 cents
Ann Page ketchup—2 for 25 cents	Heinz ketchup—16 cents
Dexo shortening—14 cents	Spry shortening—16 cents
Ann Page beans—5 cents	Campbell's beans—3 for 20 cents

In 1940–1941, the Antitrust Division of the Department of Justice took A&P to court, charging that "A&P had used its power over the years to coerce competitors and suppliers into cutting prices and giving the big company special price treatments. By trade restraint, unfair competition, and other monopolistic practices, the company had grown to be the behemoth of the food business. Without these illegal practices, said the Government, A&P could never have attained its position" (Hoyt 1969). (Justice also moved against Safeway and Kroger on similar grounds.) As a result, A&P was forced to pay fines.

The case continued until 1946, when A&P was finally accused of "conspiring to monopolize a substantial part of America's food business . . .

> The crux of the Government's case was that the huge mixture of operations shored one another up. Quaker Maid Company, the manufacturing subsidiary, accounted for 13 percent of A&P' profits. The coffee corporations accounted for 12 percent. White House Milk added 6 percent. The Government case ignored the A&P principle that these manufacturing companies were entitled to make profits on their sales, even if they sold only to A&P (Hoyt 1969).

It is also interesting that all focus was placed on the industry with little or no attention paid to the consumer, who benefited from the lower priced private labels.

When a new Administration moved into Washington during the 1950s, government interest in antitrust-law enforcement abated. Nevertheless, the legal fees and the cost of campaign publicity to fight the suit cost A&P plenty.

For some 20 years, A&P published *Woman's Day*. In 1957 the company was forced to sell that property when a court case claimed that the magazine's national brand ads constituted illegal rebates for A&P. The chain was vindicated in the case, but it made for strained relations with potential manufacturers–advertisers.

Many factors weakened A&P's position in the marketplace. Its image as primarily a private label store—emphasizing its brands through promotions, preferential aisle positioning, greater number of item facings on shelves, and advertising—hurt the company competitively, especially with the brand-oriented shopper. The population shift to the West, where A&P was ill-represented, also contributed to its weakened position. The chain carried a lot of dead weight in its smaller stores, especially with the increased interest in larger supermarkets and/or super stores.

In recent years, A&P has trimmed back and repositioned itself with more emphasis on national brand promotions. Ironically, A&P's competitors have had as much private label coverage, yet did not carry the private label stereotyped image of A&P.

For the retailer, private label can prove to be a two-edged sword. Safeway began handling that "weapon" first with six bakeries at the time of its 1926 merger. In the firm's 50th Anniversary Report, it is noted that "those bakeries represented the first important ventures by Safeway predecessors into 'making our own.' The idea originally was as much to have an assured supply as it was to reduce costs and lower prices for the customer.

> By the mid-1930s, Safeway had 21 bakeries, six creameries, six coffee roasting plants, three meat distributing plants, a milk condensery, a candy and syrup factory, and a mayonnaise plant. We were also well into field purchasing of fresh fruits and vegetables with our old Triway Produce Company.

The secret to effective private label merchandising is not to flaunt it as A&P did early in this century. Safeway and Kroger learned this lesson early. Others also have applied the strategy of not positioning private label in a more favorable manner than national brands.

A good example is Wakefern Food Corporation, Elizabeth, New Jersey. This wholesaler co-op of some 200-plus ShopRite stores, started in the 1950s, has a private label mix approaching 40% of sales. Yet the co-op maintains a strict policy. A company representative says: "We're proud of our private label, but we don't protect it in a way where it's given an edge over the brands. We give consumers value—special deals with private label as well as with national brands."

GENERAL MERCHANDISE MANUFACTURING

Like the giants in the grocery segment, entrepreneurs in the general merchandise segment also became directly involved in manufacturing operations for their private label supply. James Cash Penney, an exception, avoided any manufacturing tie-in. His first dry goods store, the Golden Rule, was opened in Kemmerer, Wyoming, in 1902. Some 16 years later, Penney launched his own brands, beginning with Pay Day work clothes, then developing other lines: Foremost for refrigerators, Gaymode for women's hosiery, Towncraft for men's suits, Penncrest for electronics, and Penncraft for tools and hardware.

Penney protected his quality standards by setting up a research and testing lab in 1930, which eventually became one of the largest and best equipped facilities in the country for consumer end-use testing of textiles.

Montgomery Ward was one of the first merchants to set up a testing lab for consumer goods. The company had to protect its trademark, a black diamond, which first appeared on alpaca goods in the 1870s. As early as Ward's 1875–1876 catalog, the company began to offer shoppers a choice: "Our design in this issue has been to offer several grades in each class of goods, thereby giving a range of prices and qualities to meet the requirements of every purse." This idea later served as the basis for Ward's "Good-Better-Best" tier of product categories. (Sears also picked up on this quality distinction, but eventually kept only its "Sears Best" label.)

In 1901, Ward built its first vehicle factory in Chicago Heights, which eventually helped construct perhaps this country's first private label automobile, called "an Assembled Car." Besides Ward, there were 15 other suppliers involved in the project. An auto manufacturer assembled the final product. This five-passenger, four-cylinder vehicle, subsequently named Modoc, sold for $1800 in 1912. Ward failed to make its mark with Modoc. Unfortunately, the mail-order house could sell the cars, but not service them. No Modoc dealerships had been set up. Modoc was dropped in 1914 (Latham 1972, pp. 59–60).

When World War I struck, Ward first moved by advancing funds to its important suppliers so that they could purchase raw materials before prices shot upward. Ward also moved forcefully into manufacturing itself, purchasing a plant in Springfield, Illinois, for the production of implements, gasoline engines, cream separators, brooders, incubators, and hardware specialties. A few years later, the company added a gas engine plant and foundry in Springfield. Other factories also were established to produce steel beds, wallpaper, clothing, knitwear, sporting goods, window shades, and other items. The Ward catalog soon began carrying Wardway Paints, produced in the firm's Chicago Heights plant (Latham 1972, p. 60).

During the Depression years, Ward changed its strategy somewhat, offering merchandise as Supreme Quality and Standard Quality with the products repackaged, bearing the "MW" monogram instead of the manufacturer's brand name previously used for its merchandise. The firm eventually went back to its Good-Better-Best selection in private label, which proved successful in subsequent decades.

Very early in its history, Sears began courting suppliers, investing chunks of money into their production, sometimes with a 100% commitment. Indications of this involvement appear in the 1901 catalog, where Sears admitted to taking "practically all" the paint from "one of the largest makers of ready mixed paint," of establishing a "modernized gun factory," of starting its own drug department backed by "a competent chemist and registered pharmacist," of operating its own foundry for ranges, of running its own vehicle factories for surries and buggies, and the like.

Sears has secured stock in a number of manufacturing companies that supplied goods to Sears, including such names as Whirlpool Corp. (refrigerators, home laundry appliances, freezers, and vacuum cleaners), Sanyo Electric Co. (TV sets), Armstrong Rubber (Allstate tires), and Globe-Union (Die-Hard batteries). Sears went so far as to sponsor the merger of Kellwood Co. (wearing apparel, home furnishings, and camping equipment), bringing together 15 smaller companies that had been giving Sears 90% of its requirements in their line (Weil 1977, pp. 138–139).

Reporting on the history of its origins, Sears in its 1978 booklet, "Merchant to the Millions" indicates that

> fanciful catalog writing started by Sears became less fanciful. A testing laboratory was set up to find out just how good Sears and its competitors' products were. What's more, buyers began looking beyond price tags to the quality of the goods they were buying.
>
> The change in the catalog from the flamboyant to the factual appears to have started by the turn of the century. . . . Not only did copy improve, but some of the products such as patent medicines were dropped. . . . As early as 1905, the company began insisting not only on accurate catalog descriptions, but also on quality merchandise.

Sears backed its quality claims with a laboratory, opened in 1911.

When Sears attempted to enter the high fashion world with the Lady Duff-Gordon line of women's clothing in 1916—before the company operated retail stores—the fashion as illustrated in the catalog did not strike the rural housewife's fancy. But Sears did succeed in the clothing area with its Perma-Prest finishes, developed by its laboratory and carrying the Sears trademark registered for no-iron merchandise (Weil 1977, p. 68).

In the many brands that Sears has launched, the names have derived mostly from its buying department. There are exceptions, of course. In 1926, for example, Sears ran a contest, looking for a new name to replace its Justice tires. Hans Simonson, a draftsman from Bismarck, North Dakota, came up with the winning name, Allstate, which today is still part of the Sears family of brands, covering automotive equipment and insurance (Weil 1977, pp. 152–153).

Sears reminisced about its trademarks in a 1972 press release, stating that file cabinets in its headquarters contain names that date back to 1902. One is on file for "J. C. Higgins," a name attached to sporting goods for many years. John Higgins was in charge of the Sears bookkeeping department when someone suggested his name for the sporting goods line. Sears liked it and, although John Higgins retired in 1930, his name carried on for years afterward.

"Some of the names suggest a product function or attribute," Sears notes in its release, "such as 'Coldspot' for refrigerators and 'Silvertone' for phonographs.

"But no one knows where the name 'Kenmore' came from. It was registered with the U.S. Patent Office in 1933, and some believe the name was inspired by a hotel across from the Boston Catalog Order Plant. Others say it was named after a street in Chicago."

Sears notes that its staff investigates up to 150 names each month. Its catalog has more than tripled in size from the 1958 edition of 532 pages. The more recent catalogues list more than 79,000 items, with some 12,000 suppliers in the United States filling the Sears pipelines.

The T. Eaton Company Limited, Toronto, at one time probably the second largest mail order catalog house (next to Sears), started its private label lines (2 and 3 cent wool gloves, etc.) in its first catalog in 1884; by 1904, the company had formally adopted its first trademark Eatonia for shoes. That name became so famous that a town in Saskatchewan was named after it. Over the years, other names were added: Birkdale, Canterbury, Haddon Hall, etc., many with a "British Isles orientation" because the founder, Timothy Eaton, had come from Ireland. Early in this century, entrepreneur Eaton established his own product research lab (1917). He also started his own factories for furniture, soft goods, stoves, and refrigerators. Eventually, these operations were sold when they became too expensive to maintain. The trademark library meanwhile built up to a point where at one time there were 129 names in the store.

Since 1976, Eaton's entire catalog business has been discontinued, with the private label business actually doubling to more than 5000 items. The trademarks have been cut back to about 29 names, all of them now being married with the Eaton name: Eaton Viking, for example.

Another pioneering giant, Frank Woolworth, avoided the manufacturing route in developing the world's first successful "5 and 10 Cent Store." Woolworth expanded his product selection into wider varieties by dealing directly with manufacturers, ordering mass quantities at a low price, bypassing the jobbers. At the beginning, he was snubbed as an "upstate [New York] upstart," but as business grew so did respect from both the jobber and the manufacturer.

When World War I hit, some of Woolworth's biggest-selling items disappeared from the store counters because of shortages in labor and raw materials. That led to the introduction of perhaps one of Woolworth's first private labels, Woolco (an acronym for the company). Before the war, Woolworth sold great quantities of imported crochet cotton at 10 cents. With a cut-off of imports, the company talked a U.S. mill into producing a product of equal quality, guaranteeing the spinner against any loss. That launched Woolco quality crochet cotton. (In 1962, the Woolco name was affixed to Woolworth's new discount chain of low-margin, high quality mass merchandising stores with department store service.)

Woolworth's wartime strategy paid off for other merchandise as well. As other 5-and-10-cent companies boosted their prices, because not enough merchandise could be sold profitably at a low cost, Woolworth held to a fixed cash price of a nickel or a dime. This was achieved because of the company's

> flexibility and expertise . . . the skill of its master buyers, the strength of its manufacturer relations, and the buying and selling might of its network. . . .
>
> Woolworth had already standardized its leading lines of merchandise. Its buying experts now concentrated not only upon ferreting out substitutes for goods gone to war but also, as production consultants, upon helping American manufacturers to fabricate goods profitably that had exclusively been imported before World War I. Woolworth's guarantee against loss, and the extent of its volume buying, were persuasive inducements (Nichols 1973, p. 105).

As with other merchants, Woolworth really had no orientation to private brands or a private label program at the beginning. The retailer's own brands were just competing brands, not regarded as a separate category. Some of the earliest private label names adopted by Woolworth appeared in the 1920s. In its 1929 "Home Shopping Guide," published to commemorate its 50th Anniversary, the Woolworth name was carried on many of the 250 items listed. Some of the oldest private brands included Woolco paste and glue, Lorraine hair nets, Herald Square stationery, and Fifth Avenue linen writing paper with matching envelopes. Since Woolworth's headquarters were established in New York City, the company drew inspiration for its name from the area: Fifth Avenue, Herald Square.

COMPETITIVE PRESSURES

The retailer's attitude about private label really determines its success or failure. When the retailer makes a commitment to *own* brands, he must assume responsibility over those brands.

As manufacturers' labels evolved into nationally advertised brands, many retailers who once commanded the trust of the consumer began to reassign that trust to outside suppliers. The retailer's role as arbiter in setting product standards fell to the outside manufacturer. Those retailers who fought against national brands, using private labels offensively or defensively, found themselves no longer selling a competitive brand. Instead, it had become a lower priced buying alternative: thanks to advertising, consumers did not perceive private labels to be on the same level as the national brands. No matter what an aggressive private label merchandiser might do at the store level, its impact was not as great as national brand advertising. That advertising built familiarity and trust. To maintain their lower price and higher markup, private labels were not advertised. The manufacturers' brands, through advertising, were positioned as top quality products said to offer the customer the best value for their money. Without the benefit of that support (not to mention more sophisticated packaging), private labels were sold mostly on the basis of price and through the efforts of store salespeople. Many retailers, who had become order-takers for the national brands, left the selling of those products up to advertising. When self-service took hold in supermarkets during the Depression years, customers, influenced by advertising, were more likely to choose the familiar national brand over the lesser known private brand. Low-margin supermarkets allowed national brands also to be priced competitively against grocery chains with private label lines.

The marketplace was constantly changing at an accelerated pace. Competition kept intensifying, often turning to cut-throat tactics as a matter of survival. The retailing field was evolving.

- The giant mail-order houses, Sears and Montgomery Ward, moved into the retail market in the 1920s.
- Advertising increased first with radio in the 1920s and 1930s, then TV beginning in the 1940s.

- Marketing research, which began first with the government providing statistics, developed in the publishing field, then evolved with new polling and attitude research techniques introduced by Crossley in 1926, then Roper and Gallup in the 1930s.
- National brands, packer labels, and private labels proliferated through the marketplace in all sizes and shapes—literally thousands of different labels.
- Independent grocers fought chain dominance with retailer-owned wholesale and voluntary co-op buying groups.
- Independents also adopted the chain's strategy of cost-effective mass distribution with the emergence of supermarkets, which marked the beginning of mass merchandising.
- National brand price wars erupted among many merchants, especially department store retailers, who turned to private label merchandise to maintain their margins.
- Cut-rate drug stores emerged.
- Discount department stores debuted in the late 1940s when Korvettes introduced a low-margin, low-service, high-turnover store in New York City.

As early as 1914, Alpha Beta, a grocery retailer in Pomona, California, began innovating with an idea of allowing shoppers to "serve themselves and save the difference." The merchandise for a short time was advertised and arranged alphabetically—antipasto next to ant paste, for example. It was one of the first retail stores to adopt self-service.

Clarence Saunders started the Piggly Wiggly stores in Memphis, Tennessee, using self-selection, turnstiles, and checkout counters.

Fred Meyer, Inc., Portland, Oregon, credits its founder, Fred G. Meyer, with opening the world's first self-service drugstore in 1930. In that decade, the supermarket came into its own as a limited assortment, self-service store, first with King Kullen stores, started by Michael J. Cullen in Jamaica, New York, in 1930. This 20- by 80-foot store featured only dry groceries (all national brands) with a new merchandising technique, described by Cullen in his ads: "I opened my little store on a shoe string and sold everything I could lay my hands on for cost or slightly above cost." Cullen farmed out different concessions in other stores he opened, to a baker, a shoemaker, etc. Eventually, he took over the concessions because of the poor name they projected through their management.

A couple of years later, Robert M. Otis and Roy O. Dawson teamed up with a wholesaler, the American House Grocers, to take over an auto plant in Elizabeth, New Jersey, and converted it into a supermarket for food and household goods. Big Bear literally bear-hugged the industry, and it has never been the same since.

In its 50th Annual Report, Certified Grocers of California (1972) gives an interesting account of the supermarket, called "the dawn of modern retailing. . . ."

> Compared to other retail outlets, early supermarkets were enormously large and crude. They occupied converted warehouses, automobile garages and even roller skating rinks, and some of the bigger ones had over 50,000 square feet of space. Supermarkets further capitalized on mass distribution—the concept chain stores developed so effectively in the 1920s. Other retailers, both chains and independents alike, considered supermarkets a passing fad. They nicknamed them "cheapies," not only because of their low prices, but also because of their unorthodox merchandising approach.
>
> Inside, the supermarket was a world unto itself. Boxes and barrels of merchandise, displayed in self-service fashion, were strewn everywhere. Dangling banners and posters announced sensational bargains. Aisles were placed so shoppers passed all merchandise before reaching the checkout counter, where cash registers briskly rang up an endless stream of sales.
>
> Each supermarket carried a different selection of merchandise, but most featured groceries, meat, bakery goods, fruits and vegetables, dairy products, tobacco, paint, hardware and automobile accessories.
>
> Although retailers were slow to see the supermarket's advantages, consumers were not as shortsighted. They liked the larger stores. Shoppers enjoyed browsing at their own pace, filling baskets and carts with items of their own choosing. They appreciated easy access to products without a clerk's interference and were loudly voicing their opinion in favor of lower prices.
>
> The United States had sunk into the Great Depression of the 1930s, and consumers eagerly welcomed a way to stretch their shopping dollars. With an economic climate threatening to get worse, supermarkets shot up almost overnight. By decade's end, it was obvious that supermarkets were here to stay.

In a couple of books about the supermarket business, author M. M. Zimmerman outlines these formative years. "Like King Kullen and Big Bear, these early supermarkets laid emphasis on price, self-service, and mass displays of nationally known brands. No thought whatever was given to appearance. Fixtures were of the crudest type. The buildings were mostly vacant factories, garages, etc. As a matter of fact, the cruder the building, the greater was its appeal to the public, since it suggested economy to the customer" (Zimmerman 1965, p. 55).

The move to supermarkets obviously was an attack on the grocery chains, which had strong private label programs. Supermarkets naturally followed the national brand route. Zimmerman in an earlier book describes how one wholesaler operated a supermarket with 40 brands of peas for greater selection—three times that offered by the chains. Zimmerman quotes this wholesaler's attitude: "We find that private labels in supermarket merchandising are about as productive as fishing in the Dead Sea—except, of course, when they are manufactured items to which you can give some kind of trade name. A packer's label of unknown value is as bad except when it is standard merchandise priced under the advertised brand to appeal to a certain type of consumer who must acutally economize" (Zimmerman 1937, p. 99–100).

The battle lines appeared to have been drawn. Zimmerman, who was editor and publisher of Super Market Merchandising Magazine, quotes from its October 1937 issue, in which W. H. Albers, president of Albers Super Markets, Inc., talked about the "increasing trend of consumer alertness against private brand substitutions." Albers also notes that the growth of supermarkets caused chains to close thousands of neighborhood stores, creating opportunity for the small retailer to take over: "The small merchants will see the advantages of carrying only nationally advertised brands of food, keeping down their inventory and making better profits on their investment. The real competition will be between two systems of distribution: national brands through supermarkets and independents versus chains with private brands."

Albers noted: "The issue is clear enough. Private brand people can only emphasize price. The national food advertisers must manifestly and necessarily depend on value."

The chains, of course, followed the independents into the supermarket business, taking their private brands with them. Also, independents eventually adopted their own private labels for supermarket trading. The determining factor became not type of operation but product availability.

At the beginning, canners of fruits and vegetables actively developed their own packer labels for the grocery trade, establishing several grades of product—fancy, choice, and standard. At the beginning of this century, Minnesota Valley Canning, Le Seurr, Minnesota, developed two labels, Artesian and Minnesota Valley cream-style corn. In 1907, that canner began packing peas for the grocery trade under packer labels and in the 1920s introduced its Green Giant packer label. In finding a winner, that canner began supporting mostly that label, which developed into its national brand.

Canners proliferated in the Midwest. In the 1930s and 1940s, there were more than 100 companies with canning plants in every county in the state of Wisconsin. Each canner had two or three of their own packer labels, sold mostly to the wholesale grocers and to some chains. They also provided private labels to the chains. About 150 labels of canned peas were sold in the state at one time, each with less than 1% market share. Some canners expanded into regional and national brands with their packer labels, others stayed with packer labels and private labels only.

Meantime, the frozen food business was expanding. Birds-Eye's entry into the retail business in the 1930s drew other distributors and packers into the picture. In the 1940s, Penn Fruit Co., Philadelphia, became one of the first chains to start a private label frozen food line, marketing 12-oz cellophane bags of vegetables under its "Green Valley" label. Later, fruits were added (Williams 1963, pp. 28, 69).

Topco, a Midwest buying co-op, then called Food Products Cooperative, started to experiment with frozen foods under its label in the 1940s. Not until early in the 1950s did Safeway Stores launch its private label frozen food program with Bel-air Peas.

In the 1930s and 1940s, Safeway started to build its private label program. Perhaps from the proliferation of labels or from the pressures exerted by the government on the chains (i.e., A&P's plight with an antitrust suit) or whatever the reason, Safeway adopted a strategy of adopting numerous labels, private labels that were disguised as packer labels. The chain established a family of more than 100 different names that, Safeway admits, really got out of hand. In the firm's house organ, Safeway News, August/September 1980, this situation is described:

> Once upon a time, Safeway had more names attached to its products than anyone ever bothered to count. A budget-conscious shopper, probably unaware the items were Safeway's, could load up a baskart with Beverly peanut butter, Montrose butter, Dutch Mill processed cheese, Farm Fresh eggs, Prairie Schooner Bread, Jan Arden cookies, Tea Timer crackers, Suzanna pancake mix, Golden Heart flour, Mayday salad oil, Show Boat rice, Pennant tea, Wakefield coffee, Fair Winds tuna, Sundown fruit cocktail, Country Home corn, Anthem peas, Moneca plums, Destino tomato paste, Cascade salad dressing, Old Mill vinegar, Hy-Pro bleach, El Rapido soap, Sno-White salt, and Snow Cola soft drinks.
>
> And that baskart would contain only a smattering of the names once used to designate Safeway products.
>
> No one really seems to know exactly what led to such an unwieldy profusion of names. But many did know that the proliferation of names led to a lot of confusion, shared by customers and employees alike.
>
> Aside from the confusion, observed senior vice president/supply Lorenzo Hoopes, "we were limited in the amount of promotion that could be directed at good-quality items because of the many different names."
>
> The effort to reduce the variety of names, based on these facts, began. "S" Brands got first priority.

The chain worked toward unification of its private labels, ending up with about a dozen names under the S Brands umbrella—Lucern dairy products, Bel-air frozen items, Cragmont soft drinks, White Magic household items, and so on.

The suppliers also followed that pattern toward consolidation. In canning, for example, 180 plants were operating in Wisconsin in the 1950s; today, some 80 plants are operating at five to ten times the volume.

For retailers, it became a matter of building equity around certain brand names they owned. A&P, for example, in about 1960 operated some 23 manufacturing and processing plants, which produced 498 grocery flavors and varieties plus 500 dairy and fish items, 12% of that total volume concentrated in the Ann Page and Jane Parker labels.

In the 1960s, Montgomery Ward's private label volume had leaped ahead from 40 to 95% of total sales, while national brands were reduced from 168 to 16. The firm had built equity into such brands as Signature, Airline, Riverside, Garden Mark, Brent, and Power-Kraft.

Woolworth's report, "The Growing Importance of Woolworth's Private Brands," indicated that "just 12 of our brand names presently account for 85% of total private label sales"—not including the "Woolworth" label. The dozen were Audition for radios, musical instruments, record players, and accessories; Fifth Avenue stationery where "papers are never made from reprocessed paper or mill seconds; but only of the finest quality vellum, rich in quality to see and to touch"; Happy Home furnishing lines, contributing about 32% of private label sales in items like rugs, curtains, towels, picture frames, included hardware and rubberware, electrical devices, and home appliances with "heavy gauge aluminumware the same quality as nationally advertised lines, giving us the same gross markup but selling for 25% less"; Herald Square office and school supplies; Home Cote paints and brush accessories" equal in quality to nationally advertised brands and always better values"; Lorraine hair goods; Pata Cake infants' wear and accessories; Petite Belle budget hosiery for women and girls; Primrose nylon hosiery and tights which "go through more than 15 tests and inspections during manufacturing to insure best quality. . . [and] have even earned the famous Good Housekeeping Seal"; Primstyle fashions for dresses, sleepwear, and other clothing; Sunny Lane candies, nuts, and novelties; and TopsAll men's and boys' dress and sport shirts "made of quality fabrics by famous manufacturers, tailored to exact specifications with top quality features and the latest styling details."

Lower priced merchandise—whether national brand or private label—has always caught the eye of the consumer. In the 1930s, fair trade prices were established by manufacturers to protect retailers against competition under pricing merchandise; nevertheless, resale prices kept edging upward. That opened up a market for the supermarkets, selling at a discount price with self-service and taking lower margins.

In the late 1940s, the same effect hit the department store business. Eugene Ferkauf started a discount department store featuring luggage and appliances sold at less than the list price. Ferkauf took a low margin (under 10% markup), provided little service in his stores, and realized a high turnover of goods. He started Korvettes in 1948 in New York; six years later, his operation developed into the country's first full-line discount store. But even Korvettes fell victim to the markup fever. Its prices started to creep upward into the 30%-plus markup area. That opened up the door to lower-priced private labels.

Korvettes' "own controlled brands" grew to some 65 registered names. Kerkauf started the program with tiers of quality similar to Wards, but he eventually went to only top quality merchandise, comparable to or better than the national brands. The chain used its Korvettes name on drugs, vitamins, hardware, personal care, and certain soft goods. At any one time, only 15 other brand names were kept active. Some of the brands included Ann Robin, Young-Mate, and Carina on soft goods; XAM for radios and major appliances; and Power King for sporting goods. Private label, ironically, carried more than twice the markup of the branded merchandise, 60 to 65%. The chain maintained a strong, viable private label program, representing about 15% of its total sales (roughly $90 million-plus).

Korvettes, however, make the mistake of changing its discount image to that of a fashion center. Other mistakes in management and funding led to the company filing for bankruptcy in 1981.

The discount store concept did not die. After World War II, discount stores began to spread; more and more appeared during the 1950s, drawing in participants from the department store, variety store, food, and drugstore segments.

In the variety store segment, Woolworth opened its first Woolco discount department store in 1962 with an emphasis placed on branded merchandise sold at competitive prices. The Woolworth strategy was to stay primarily with nationally advertised goods, thinking cusotmers would identify the merchandise more easily.

But the real success story in discount general merchandising was experienced by S. S. Kresge Co., Troy, Michigan, one of the country's oldest retailers. The company was founded by Sebastian Spering Kresge, who started into business for himself opening dimestores, similar to the Woolworth concept, in 1900. When shortages hit during World War I, Kresge added green storefronts (to his red ones) and upped the prices to $1. Subsequently, a private label program was added to the stores.

Competition from the discounters (Korvettes and others) hurt Kresge's profits, forcing the chain to launch its K mart concept in 1962. That move literally catapulted Kresge into a new identity and leadership in its market segment. The success of K mart and its smaller discount store version, Jupiter, eventually took over the variety store image of Kresge. Since 1971, the company has not added one Kresge store; in fact, its Kresge stores were dropped or converted to the K mart concept. That became the principal business, so much so that in 1977 the company changed its name to K mart.

K mart positions itself as a mass merchandise chain within the department store category. Its strategy continues to be discount pricing. The growing chain added product categories not usually included in a conventional department store, such as tires, batteries, accessories, prescription drugs, building materials and home improvement goods, plants, and garden supplies. Its success was built on the effort "to offer the consumer goods of high quality and durability at prices substantially lower than the competition was generally offering—discount pricing." Its motto has become "satisfaction always." Private label has continued to be an integral part of that strategy and motto. The firm's buyers worked closely with manufacturers, setting standards of quality. When its business grew rapidly, efforts were intensified "to supplement the existing assortment (of national brands) with private lable merchandise where K mart could control production and merchandise flow to meet high demands."

In the 1977 Annual Report, K mart noted:

> K mart is the major retailer of national brand merchandise in the United States. A national brand, by definition, implies good quality. However, a store that carries the breadth of merchandise of a K mart must sell more than just nationally-branded products. K mart assures consumers that all merchandise on K mart shelves, regardless of the name on the label, is of high quality by utilizing a knowledgeable buying organization, a broad quality control program, and systematic on-site inspection programs.
>
> Ultimately, what consumers seek in their purchase is value. Value is a function of both price and quality of the merchandise. K mart is unquestionably the price leader in the industry. That however is not the reason for our success—it is the combination of our price and our quality which results in high value to the consumer that has made us the successful retailer we are today.

Today, K mart's private label selection amounts to some 1600 items, which vary according to the season. Its philosophy about what makes the chain successful—the combination of price and quality—in effect recaptures what had been lost in the past. Price and quality—not just a price identity—that combination once again made private label a competitive brand.

The message is brought home forcefully by Marcus

> . . . but many have been the requests for a new Neiman-Marcus label to replace one that has become frayed or soiled. I've known of black-market operations in Neiman-Marcus labels with prices as high as $10 for coat labels (Marcus 1979).

K mart understands only too well the importance of that identification or image inherent in a private label. Its chairman, Robert E. Dewar, speaking at a 1979 stockholders meeting, said:

> The name "K mart" has become a household word. It is a generic term standing preeminently for low price. . . . K mart's philosophy is to give the customer good-

> quality merchandise at highly competitive prices. We expect to run the most competitive and highly promotional low-margin store in any area in which we operate. . . . Our buyers, supervised by merchandise managers, recognize the need to be alert to the changing needs of the modern-day consumer. We have often stated we do not intend to be a fashion leader, but will be very quick to follow. In our low-margin business, we cannot afford the markdowns necessary to be a real leader in fashions. But our current network of over 26,000 vendors, and the advance work we do with these vendors, enables us to follow promptly on fashion trends.

It is a case of the "follower" becoming a leader—not only with a store name, but also with an image reflected in its store-labeled merchandise.

REFERENCES

Ferry, J. W. 1960. A History of the Department Store. Macmillan Co., New York.

Gamm, I. 1976. Seventy-five Years of Walgreen Progress, *Walgreen World.* Vol. 43, No. 5. September-October. Walgreen., Deerfield, Illinois.

Hower, R. M. 1943. History of Macy's of New York, 1858–1919. Harvard University Press, Cambridge, Massachusetts.

Hoyt, E. P. 1969. That Wonderful A&P. Hawthorn Properties (Elsevier-Dutton Publishing Co., Inc), New York.

Latham, F. B. 1972. 1872–1972. A Century of Serving Consumers: The Story of Montgomery Ward. Montgomery Ward, Chicago, Illinois.

Mahoney, J. T., and Sloane, L. 1974. The Great Merchants. Harper & Roe, Publishers, Inc., New York. Copyright 1947, 1949, 1950, 1951, 1955 by John Thomas Mahoney. Copyright 1966, 1974 by John Thomas Mahoney and Leonard Sloane. By permission of Harper & Roe, Inc.

Marcus, S. 1979. Quest for the Best. Viking Press, New York.

Nichols, J. P. 1973. Skyline Queen and the Merchant Prince: The Woolworth Story. Pocket Book, New York.

Sears. 1902. Sears, Roebuck and Co. Catalog. Sears, Roebuck and Co., Chicago, Illinois.

Scull, P. 1967. From Peddlers to Merchant Princes: A History of Selling in America. Follett, Chicago and New York.

Weil, G. L. 1977. Sears, Roebuck U.S.A.: The Great American Catalog Store and How It Grew. Stein and Day, New York.

Williams, E. W. 1963. Frozen Foods: Biography of an Industry. Cahners Publishing Co., Boston.

Zimmerman, M. M. 1937. Super Market: Spectacular Exponent of Mass Distribution. Super Market Publishing Co., New York.

Zimmerman, M. M. 1955. The Super Market: A Revolution in Distribution. McGraw-Hill Book Co., New York.