



Book Cheap

The High Cost of Discount Culture

Ellen Ruppel Shell
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Recommendation

Science journalist Ellen Ruppel Shell offers many insights in this terse, but engaging overview of the discount industry, starting with the image of shoppers browsing mindlessly through discount store aisles filled with shoddy merchandise. Her mix of history, economics and psychology delivers a disturbing portrait of the discount industry from the industrial era to the present day. Some of her examples and arguments are repetitive or simplistic, but after reading this book, you'll think twice about every price tag or special promotion. Shell, who acknowledges that she is a bargain hunter, too, never gets preachy. Instead, she prompts you to examine the hidden financial, political, environmental and global costs of the discount culture. Many so-called bargains are not good value, and shoppers pay extra tolls in wasted time and resources. *BooksInShort* recommends Shell's treatise to shoppers, economists and executives in the retailing and manufacturing industries.

Take-Aways

- Steeply discounted merchandise often sparks irrational shopping choices.
- Many consumers are infatuated with bargain gadgets, clothes and food – often regardless of quality.
- The cost-cutting marketplace prompts consumers to accept less value for their money.
- Woolworth – an early discount store – demonstrated that shoppers would forfeit customer-service perks in exchange for lower prices that delivered savings.
- Price manipulation reaches into society's financial, emotional and intellectual pockets.
- Discount outlets share many traits with gambling casinos, but shoppers – just like gamblers – rarely beat the dealer.
- The hunt for cheap prices has diminished the emphasis on craftsmanship.
- Overdependence on low food prices has led to an abundance of cheap food in developed nations and a scarcity of affordable products in less-developed countries.
- Cheap goods have depressed workers' wages, lifestyles and buying power worldwide.
- The words "thrifty" and "frugal" do not mean the same thing as "cheap" or "discounted."

Summary

Attention Shoppers

Bargain hunting is a bottomless shopping bag for many consumers. The quest for bargain sales and deep discounts often reflects a deeper individual desire for economic control. In the shopping aisles, scoring great deals seems like the way to gain victory points in the retail game. Unfortunately, the financial points you win when you go bargain hunting are often cheap illusions.

“Sell it cheap, buy it cheaper and convince consumers that low price trumps all.”

Many shoppers, particularly in America, seem infatuated with low prices, and the relationship is not one-sided. The retail industry is wooing consumers with a record number of discount chains, outlet malls, dollar stores and warehouse clubs. Faced with heavy discounting, shoppers have a difficult time understanding price tags or decoding value. Often, they don't or can't distinguish between high- and low-quality.

“Obsessed with ‘getting ours,’ we sometimes failed to notice or acknowledge the real price we paid for all those marvelous bargains.”

Confused, they stock up on low-priced bargains that offer diminished or dubious real value. Some so-called deals are actually rip-offs. But the public’s growing appetite for low-priced, low-quality products makes it difficult for merchants to sell full-priced, high-quality goods.

Innovations in Commerce

Before the Industrial Revolution, many products were difficult to obtain because production was a slow, tortuous process, but modernization made creating products easier and cheaper.

“Like gamblers, outlet shoppers believe they can ‘beat the house’ by scoring great deals on expensive brand-name products.”

In the United States, migration from rural areas to the big cities tremendously changed consumer demand for merchandise. People wanted more things to fill their new urban homes. In 1875, John Wanamaker – a businessman in Philadelphia – created a department store to address the clamor for products.

“Low price became king and the consumer its willing pawn.”

Wanamaker housed his store in an unused railway depot and advertised it as the “largest space in the world devoted to retail selling on a single floor.” The launch, which coincided with upgraded processes for manufacturing and transportation, opened a vast collection of consumer goods to middle- and working-class residents.

“Discounting plays many tricks on the human mind.”

Several factors led to the success of Wanamaker’s department store:

- **Bulk purchases** – Wanamaker snapped up large quantities of wholesale merchandise at a discount and shared a portion of his savings with consumers through low prices. He called this the “most powerful factor yet discovered to compel minimum prices.”
- **Cheap labor** – He filled the payroll with clerks who earned low wages. They far outnumbered higher-paid employees.
- **January sales** – Wanamaker invented the post-Christmas sale to draw shoppers into the store during January. Because of this strategy, he did not have to lay off his clerks at the end of the holiday season.
- **Price tag** – The store featured a “single pricing system.” For the first time, consumers made their selections from goods tagged with small pieces of paper showing dollar figures. Previously, people haggled over the prices in stores, so savvy shoppers paid far less than unsophisticated consumers.

Titans of Cheap

Frank W. Woolworth of upstate New York opened the first “five-and-dime” store in 1878. He based his concept on his experience as a salesclerk. He had noticed that shoppers needed very little sales help when they browsed displays of items selling for a nickel each.

“Knowing that bargains are ephemeral doesn’t diminish our desire for them.”

Consequently, he built his business – “Woolworth’s nickel-and-dime empire” – on self-service, low prices and cheap labor. To procure inexpensive products for his chain, Woolworth traveled internationally, buying trinkets, gadgets, buttons and other mass-produced items. A deep recession in 1893 enabled Woolworth to expand his stock to include leather items. His operating principal: Price usually means more than value when it comes to basic household items.

“At discount chains, customers paid with their time.”

In 1895, Richard Warren Sears launched the *Book of Bargains*, the first Sears catalog, establishing a mail-order business for low-priced goods that was accessible to the general public. Like Woolworth, Sears created his own supply chain, which included several manufacturers. This concept spread with the booming population of chain stores, which grew from approximately 50,000 in 1920 to 141,492 by 1929. During the First World War, international conflict forced Woolworth to establish a manufacturing base in America. Other titans of the growing discount world followed in his footsteps.

Discount Backlash and Boom

Chain stores and low-priced vendors succeeded in delivering affordable products to average Americans, but critics soon spotted flaws in the discount chain stores. Protestors were suspicious of the quality and impact of low-priced items. Battle lines developed between chain stores and independent store owners. During the 1920s, traditional retailers and their advocates argued that discount chain operators were ruthless competitors who stole business from local merchants. What’s more, according to the leaders of the Retail Merchants Association, discount products created in massive volume diminished the value of individual workers’ labor and disrupted the consumer’s purchasing power.

“Creativity and innovation can get lost in the stampede toward ever lower prices.”

The 1920s-era backlash against chain stores drew support from nearly 300 national and regional groups representing 7% of residents. But after World War II, other factors gave the discount industry a boost:

1. **Post-war boom** – The presidency of Dwight D. Eisenhower was a period of prosperity. Boom times encouraged middle-class Americans to spend on recreation, entertainment and status symbols.
2. **Television** – Between 1948 and 1953, the number of households with television sets grew from 350,000 to a whopping 25 million. Television commercials – an ideal medium for discount companies – fueled the demand for affordable products.
3. **Computerization** – Technology greatly enhanced the production and the shipment of merchandise.

“Discount chains not only put untold numbers of small retailers out of business, they reshaped the American demographic.”

Eugene Ferkauf started E.J. Korvette in a Manhattan loft in 1948. He began with marked-down leather items and expanded by selling appliances for little more than what they cost him. The store turned handsome profits by selling in large volumes. Ferkauf expanded to New York’s suburbs, opening superstores in Long Island during the 1950s. Other discount chains flourished during the 1950s and 1960s, including Kmart (the discount arm of S.S. Kresge), J.C. Penney and Target. Many traditional stores formed or purchased discount chains.

Supermarket Models

Discount retailers sampled and borrowed the business strategies used by supermarket chains. Popular grocery stores provided self-service displays, shopping carts and centralized checkout lanes. These features encouraged sales and cut costs by reducing the number of workers needed to operate a store. Shopping carts encouraged consumers to browse through the aisles – without assistance from employees – while pushing around large quantities of merchandise.

“It is a terrible irony that the global demand for ever cheaper food has pushed the most vulnerable – poor families in the developing world – to the brink.”

Low prices became the pivotal factor in the discount stores’ strategies for selecting, distributing and marketing. The owners of discount chains aggressively bought low-priced products in bulk quantities from sources around the globe. This pursuit of low-priced merchandise from foreign vendors, especially those in Asia, gained momentum during the 1960s – and the United States developed its first post-WWII deficit in trade with Japan.

“Cheap fuel, cheap loans, cheap consumer goods do not pave the road to salvation.”

Meanwhile, the American appetite for inexpensive merchandise expanded, and shoppers became willing to compromise on quality and safety in exchange for lower prices. This compromise lowered standards in nearly every sector of the consumer market, including groceries and fresh produce, consumer products and even restaurant meals.

“Motivated buyers are far less likely to be suspicious of low prices.”

Bar codes – an inventory system pioneered by supermarkets – also became a fixture in the retail industry. This high-tech system – where an item’s price is encoded in a black-and-white bar pattern that a computer can scan – became popular with retailers such as Kmart and Wal-Mart during the 1980s. With bar codes, stores could quickly analyze their sales results and recognize best-selling merchandise. This enabled retailers to manage stored inventory efficiently, which paved the way for further cost cutting.

“Prices are devilishly slippery things, open to interpretation and manipulation.”

Using bar codes and other inventory systems, Wal-Mart acquired a reputation for tech-savvy strategies. By 1992, the chain dominated the global retail industry and posted \$191 billion in annual sales. The discount giant’s size and pricing advantages prompted smaller vendors to leave the marketplace. Likewise, many larger department stores folded due to competitive pressures generated by “big-box” discount stores and other market forces. During the 1980s, the number of US department store chains dropped from 42 to 20.

Buyer Beware

Discount chains and outlets often play psychological games with prices. To protect yourself, be wary of some well-known sticker strategies, including:

- **Round numbers** – Frequently, merchants denominate product prices in multiples of five or ten, because consumers are comfortable with rounded numbers.
- **Penny discount** – Nine is a seductive number. Prices ending in nine have an emotional appeal for shoppers. Research demonstrates that shoppers will stock up on an item priced at \$15.99, but skip over a comparable product sporting a \$16 price tag. The penny discount has an appeal that defies logic.
- **BOGO strategies** – Buy-one-get-one-free (or discount) offers are popular strategies designed to encourage consumers to make bulk purchases. This pitch targets a shopper’s need to “score” a good deal.

Problems in Paradise

Some experts praise the discount industry for creating economic growth. Supporters note that retail business productivity soared during the 1990s. But the dominance of discount chains and outlet stores has led to lower incomes for store employees and a spike in low-wage jobs.

In the past, Bloomingdale’s, Macy’s and other large full-service retail stores offered solid career tracks with growth potential. A stockroom employee could advance to the executive office. But the discount model eliminated a number of well-paid positions on that career ladder. Discount stores offered reduced prices, but they also cut workers’ incomes and career growth opportunities. Meanwhile, the super rich – including the CEOs of discount chains – receive lucrative salaries and long-term benefit packages.

In the discount economy, middle- and working-class consumers have become bigger spenders with smaller purses. Some bargain hunters go to great lengths to chase a deal, even though, for example, “a thrifty person does not drive miles to save \$3 on tube socks.” In such instances, which occur frequently, the quest for bargains completely detours around logic.

Therefore, many economists and historians argue that the discount industry and its “mass market consumption” habits provide Main Street consumers with only superficial layers of social and economic progress. Society has failed to truly “redistribute wealth.” Although productivity improved steadily from the 1970s up until 2008, workers and their families have “lost financial ground.” Real household income has been stagnant for years. The global shopping village is built on the endless endeavors of low-wage workers in the United States and around the world.

About the Author

Ellen Ruppel Shell is a contributing editor and correspondent for *The Atlantic*. She is also a science journalist, professor and co-director of the science journalism graduate program at Boston University.
