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Regulating the supermarket in 1960s Britain: exploring the changing relationship of food manufacturers and retailers through the Cadbury archive.

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Introduction

This paper comes out of previous research I was involved in, which explored the rise of self-service and supermarket food retailing in the UK, c.1945-1975, from a consumer perspective.[1] Consumer studies provide part of the story that explains the rising power of the supermarket chains, in terms of consumers' acceptance of a new experience of shopping, but they alone cannot explain why supermarkets have now formed an oligopoly, with the big four Asda, Morrisons, Sainsbury's and Tesco able to control supply chains from a position of total dominance. In previous research emphasis has been given to the emergence of a so-called 'golden age' of British food retailing during the late 1980s. This was to see the increased power of supermarkets starting to be given some degree of statutory legitimation. As Marsden and Wrigley argue 'main retailers were delegated key responsibilities for the management …. of the food system'.[2] Consequently, by the early 1990s major food retailers, as represented by large supermarket organisations, had to some extent 'become enlisted as agents and promoters of public policy'.[3] This shift to a degree of self-regulation gave the major supermarket chains greater opportunities 'to exercise control over their suppliers'.[4] In 2008, the Competition Commission found that supermarket retailers were 'delivering a good deal for consumers' but that action was 'needed to improve competition in local markets and to address relationships between retailers and their suppliers', including a strengthened and revised Code of Practice, to be enforced by an independent ombudsman.[5] Local competition is now of concern, as the big four have entered the convenience store market buying up small independent shops. These current trends are at the forefront of calls to reintroduce regulation of the retail trade, but I wanted to think about how previous rounds of regulation have shaped the relationship between retailers and manufacturers. I had previously conducted doctoral research in the Cadbury archive and recalled that there might be sources to help with this task. On paying a visit I was surprised to find an abundance of material.

How did Cadbury seek to justify its privileged status in the 1960s? To what extent did regulatory reform in the 1960s impact the relationship between Cadbury and retailers? To what extent did consumers benefit from greater regulation of retail? The aim of this paper is to reconstruct Cadbury distribution activities from a previously neglected collection of materials at the Cadbury Archive, Bournville, Birmingham.[6] The archive materials are held in 31 large boxes, which each contain up to 20 separate files of material.[7] The author has summarised the contents of these boxes and the catalogue is currently being updated.[8] The contents include a variety of sales and marketing correspondence related to the Restricted Trade Practices Act 1956 and the subsequent Resale Prices Act 1964.[9] The material relates to internal communications between Cadbury directors and managers; communications between Cadbury and other confectionery manufacturers; and correspondence with retailers and retail trade associations. The Cadbury catalogue indicates that there is very limited archival information relating to the specific details of Cadbury post-war distribution, which makes these materials of significance for researchers seeking to build upon existing management histories that focus upon Cadbury labour relations, work organisation and productivity.[10]

The paper first begins with a brief history of Cadbury, to explain the historic rise of the firm and its organisation during the post-war period of the twentieth century. Second, the paper introduces the Restricted Practices court hearing, in which Cadbury presented its evidence in support of retaining RPM. Third, the paper outlines the historical context in which the court hearing took place, taking into account the political mood of the day and public opinion. Fourth, Cadbury's role in the RPM case is scrutinised in relation to the pros and cons of winning and losing the case. Fifth, the special discounting strategy of Cadbury is reviewed in the early post-war period to suggest that volume retailers, including the supermarket chains, had already found a competitive advantage over smaller retailers under RPM. Sixth, the paper provides a glimpse into the Cadbury response immediately following the repeal of RPM and some of the strategies it pursued. Finally, the paper concludes by reflecting upon the archival sources and opportunities for further research.

A Brief History of Cadbury

John Cadbury opened his first tea shop in 1824, branching into manufacturing tea and drinking chocolate in 1831. His sons, George and Richard took over the firm in 1861 and applied innovative production and management techniques, which turned the company into a leading manufacturer. In 1879, they removed operations to a purpose built factory on a greenfield site in Bournville, which is still to this date, the headquarters of the global business, now under Kraft control. In 1899, following the death of Richard Cadbury, the firm became a private limited company with George Cadbury as Chairman and his three sons (William, Edward and George) and nephew (Barrow) as managing directors.[11] In 1918, the firm was amalgamated with J.S. Fry and Sons Ltd, under the holding company known as The British Cocoa and Chocolate Company Ltd. This merger enabled the two firms to retain their distinctiveness under a Joint Board and allowed family shareholding to be maintained. In addition it enabled Cadbury to develop manufacturing plants in Canada, alongside other developments in Tasmania and New Zealand.[12] In the first half of the twentieth century a distinctive management culture developed under the guidance of family directors, which has been referred to by Child and Smith as Cadburyism.[13] This board of directors self-consciously appropriated Quaker values and principles to defend an internal labour market characterised by a gendered division of labour, generous welfare provision and a series of Works Councils. In the post-war period, the coherence of Cadburyism was gradually eroded to selectively emphasise discourses of rationalisation and efficiency to justify increased worker discipline along Taylorist lines.

The development of the firm during the period c. 1960-1970 is described by Smith, Child and Rowlinson.[14] Cadbury management and production strategy remained remarkably stable, with the majority of Board members drawn from the Cadbury family until 1967.

The company became more profit orientated after 1962, when the company became publically quoted. The 1960s was then marked by diversification into wider food categories: cakes (1962), milk powder (1963), sugar confectionery with the acquisition of James Pascall and R.S. Murray (1964),[15] meat processing (1966) and 'Smash' instant potato (1968). In February 1967, the company (i.e. Cadbury Brothers, J.S. Fry & Sons, and Pascall-Murray) was renamed the 'Cadbury Group' to reflect the wider product areas it was now dealing in. With the formation of the Cadbury Group, the company adopted a divisional structure to foster more efficient management of their home and overseas markets within three divisions: i) UK Confectionery; ii) UK Foods; iii) Overseas.

The Confectionery and Foods divisions had their own separate sales forces, and the confectionery division was further subdivided into a sales force for Cadbury confectionery products and another for Fry-Pascall products. Likewise the Foods division had its own sales force for selling drinks, biscuits and other grocery lines, with a separate division for Cadbury Cakes.[16] The majority of these grocery products were not restricted by RPM, which meant that Cadbury was evolving strategies for marketing and promotion under this arrangement at precisely the time at which RPM was repealed for chocolate and confectionery. To take the story forward, fear of takeover combined with the desire to project their brand in the United States prompted a merger with Schweppes in 1969. The subsequent focus on branding and TV advertising must, not only be seen in relation to the merger, but also in relation to the abolition of RPM in 1967. The most recent notable event, of course, has been the controversial Kraft takeover of Cadbury in January 2010, in an £11.6bn deal.[17]

Cadbury and the Restricted Practices Court

The 1960s were a period of major transformation in the Cadbury business, when the balance of power in the confectionery supply chain shifted decisively downstream to supermarket retailers. The key event in this decade is the hearing of a legal case, presented by the firms of Cadbury, Mackintosh, Rowntree and Bassett, in which they fought to retain the option to fix the sale prices of their chocolate and confectionery goods. The archive materials presented in this paper relate to vertical price fixing strategies in the confectionery industry, more commonly referred to as Resale Price Maintenance (RPM). Price maintenance can take two forms, horizontal and vertical. In the early post-war period, horizontal price fixing was regulated under the 1948 Monopolies and Restrictive Practices Act and the 1956 Restricted Trade Practices Act, which made it illegal for manufacturers to act in collusion to jointly enforce the retail prices at which their products could be sold. Any restrictive agreement between manufacturers was registered with the Registrar of Restrictive Practices. Resale price maintenance was a form of vertical price fixing undertaken by 'individual' manufacturers in specific food categories (e.g. confectionery) under the 1956 Act. Vertical price fixing is one way in which manufacturers secure property rights over the information services provided by retailers, ensuring that retailers providing pre-sale information services are not undercut by free riding competitors who provide lower levels of service. The pros and cons of RPM have been discussed previously,[18] and it has been noted that free riders can have negative impacts upon customer satisfaction, perceived brand value, manufacturers' access to markets, consumers' access to points of sale and the range and depth of products stocked by retailers. In sum, RPM enables manufacturers to fix the retail price so that high-service dealers, CTNs for example, are protected from free riding discounters.

At the 1967 Restricted Practices court hearing, manufacturers operating RPM had to demonstrate its importance to their business under five criteria (gateways) in the Restricted Practices Court:

a) the effects on the quality and variety of goods available for sale;
b) the number of establishments in which the goods would be resold;
c) the long-run effects on the level of retail prices;
d) whether the goods were likely to be resold in such a way that would cause danger to health;
e) the effect on the provision of necessary services;[19]

The details of the Restricted Trade Practice court hearing of 1967 have previously been described by Harold Crane, who acted as the legal advisor to Mackintosh during the case.[20] It is estimated that the case cost £110,000 in professional fees and significantly more in respect of the time forgone by senior managers and directors, with the share of the costs distributed in relation to the relative market share of the firms involved, Cadbury carrying 50%, Rowntree 25%, Mackintosh 15% and Bassett 10%.[21] Perhaps this is why the archive material has been preserved, due to the cost to the firms involved. Crane's summary of the case is detailed and gives due weight to the arguments for and against the Act in the context of the confectionery market, but the account is selective and conceals the specific distribution strategies adopted by the 'Four Firms' leading up to the court hearing (i.e. Cadbury, Rowntree, Mackintosh and Bassett). The RPM material at Cadbury provides evidence of contemporary correspondence between, (i) manufacturers (ii) divisional managers within the firms, and (iii) manufacturers and retailers. These materials contain information that would have been sensitive at the time and much of the material is stamped 'Confidential'.

Historical Context of the Hearing

During the 1960s, the UK government was struggling to control inflation and had the difficult task of maintaining public support in the face of rising food prices.[22] The structure of parliamentary democracy favours short term wins over long term goals, which makes it difficult to argue in favour of higher short or medium term food prices to achieve long term goals, for example, the current need for policies that emphasise sustainable low carbon food production. Inflation was the contemporary problem and the big 'freeze' began on 22nd June 1966, with the government imposing a six-month statutory wage freeze.[23] Average food prices increased by nearly 2 per cent in 1963, by nearly 4.5 per cent in 1964, and by just over 3.5 per cent in 1966.[24] Critics of the Labour government argued that nationalisation might be applied to grocery retailing. Geoffrey Kaye, the head of Pricerite supermarkets argued that:

> "What this Government wants eventually is four or five major companies to supply the nation's food. Then they will put their own men on the boards and gradually take over," he claimed. "They will tell us how much profit we can make, and then take the rest. I think this is an inevitable step unless there is a change of government, and I cannot see the Labour Party being deposed for some while."[25]

Edward Heath, then President of the Board of Trade, announced on 15th January 1964 that the government was in favour of abolishing RPM.[26] This also applied to many non-food goods with higher margins that food. Supermarket managers had identified retailing non-food goods as a way of boosting their low margins, so it was unlikely that supermarkets would make any exceptions for individual goods (e.g. confectionery) in seeking to win the overall argument for abolition. In 1964, the government made no regulatory provision for monopolies in services, and therefore were in no position to limit the future activities of supermarkets, or even to imagine that this was something desirable; the main emphasis at the time was upon limiting the power of manufacturers.[27]

During the 1960s retailers had been getting around RPM by negotiating better trade margins with manufacturers (i.e. volume related discounts) and providing trading stamps as a form of price reduction.[28] Trading stamps were difficult for manufacturers to regulate, because it was inefficient and time consuming for retail cashiers to exclude the expenditure on price maintained goods from the total receipt on which stamps were awarded. Ironically, price maintained goods were effectively earning consumers a discount in stores issuing stamps and supermarkets had effectively changed consumer consciousness. As one commentator put it:

> "The grocery trade in the last few years has done an excellent public relations job on behalf of a Government facing a General Election. It is now hard to convince a housewife that paying what appears to be a higher price is really good of her."[29]

Contemporaries were concerned about the four key effects of RPM abolition. First, many felt that this would benefit consumers in the short term, but be detrimental in the long run.[30] Second, according to an Alfred Bird survey, it was argued that consumers were unable to assess the comparative prices of more than six products and therefore would be open to exploitation by retailers using loss leaders to attract custom.[31] Supermarkets sought to counter this argument by framing women as intelligent and rational consumers, but the attempt by male figures such as Patrick Galvani[32] and Fine Fare executives, for example, to educate women were extremely patronising by modern conventions and had the opposite effect of assuming women were irrational and incapable of adapting to new self-service formats without assistance. For example James Gulliver, the chief executive of Fine Fare gave this advice to young housewives:

> '...ask yourself "Do I need it? Will my family enjoy it?"
> Always consider what you want before you shop but be open to ideas from what you see on display. Walk slowly round the store. Look at the various brands before deciding which suits your needs best – either in

> size, content or price....Also look at the wide range of British cheeses – from Stilton to the traditional Cheddar. They are all good value and offer tastes to suit every palate. Avoid rush hour shopping if you can. Mid-week or early-in-the-day shopping gives you time to browse and select. Above all, compare, consider, and judge for yourself.'[33]

Third, firms like Cadbury argued that abolition would result in increased advertising revenues, which would inevitably be passed on to the consumer in higher prices.[34] Fourth, the externalities of increasing retailer power were cited as inducing unacceptable social costs.[35] For example, without adequate regulation and trade union interventions, retail competition leads to monopoly forms of capitalism, which result in high levels of unemployment and greater intensity of work for those remaining in employment. In hindsight, and with vivid demonstrations of this logic in action, these arguments are easier to identify.[36]

The RPM Court Case: The Cadbury Dilemma

The main points of Cadbury's case can be summarised in a number of negative effects they predicted. First, manufacturers will lose control over display, merchandising and promotion. Second, price cutting by supermarkets will lead to a reduction in small confectionery shops and the variety of lines available to the consumer. Third, the reduction in small confectionery shops will reduce demand, because confectionery is an impulse rather than a planned article of consumption. Fourth, retailers will selectively cut product lines and recoup the profit from other lines about which the consumer is less price conscious (i.e. loss leading). Fifth, concentration of power in a few large retailers will mean lead to rising consumer prices in the long term. With these five key objections, Cadbury then had to decide which of the five gateways, set out in the terms of reference for the hearing they were going to focus upon (see page 5). Gateway (d) (i.e. health and safety) was regarded as irrelevant to the case, but the remaining gateways were all addressed by Cadbury. The gateway that resounded with Cadbury's long term policy of delivering lower prices to the consumer (gateway 'c'), was regarded as problematic, because the predicted elimination of smaller retailers and the concentration of trade through supermarkets would likely lead to price reductions. Even if demand dropped, more predictable consumption would lead to rationalisation and greater production efficiencies.

As the most powerful confectionery manufacturer in the UK, Cadbury was placed in a difficult position by the RPM case. Whilst it had to retain its lead in the market vis-à-vis its competitor manufacturers, it also had to gather support from them to fight the case to protect manufacturers' interests. At the same time, Cadbury had to demonstrate leadership on behalf of its distribution stakeholders, which varied from the small confectioners, tobacconists and newsagents shops (CTN), many turning less than £500 of Cadbury products annually, to multiples operating counter service and/or self-service methods. Finally, Cadbury was committed to delivering value to the customer. Cadbury's corporate reputation, based around the public narrative of fair play enshrined in 'Cadburyism', was being tested across three competing interest groups. Although

Cadbury took the decision to fight the case, the Director of Marketing R.N. Wadsworth was uncertain about the benefits of winning the case:

> "It is quite possible that although the total industry output may be reduced, the Five leading firms could benefit from the ending of R.P.M. with a larger share of a smaller market. If we believe this, then we find ourselves fighting a case which is not in our own interest."[37]

Although Cadbury undoubtedly fought hard to win the case, it is clear that there was doubt about the merits of victory. Minutes reveal that Cadbury was worried about its public perception in light of its own survey in 1964 of 1,088 members of the public, which demonstrated that 80% agreed that Cadbury should accept abolition of RPM on the basis that it will lower prices and create bargains.[38]

To fight the case, Cadbury had concrete evidence that the *variety* of goods available to the consumer would be reduced by abolition of RPM, given a predictable reduction in small CTNs. In January 1965, market research organisation Nielsen carried out a survey on a sample of 640 shops, comprising 362 specialist and semi-specialist confectioners and 133 grocers. The subsample of the survey found that only 2% of grocers stocked more than 300 packings (i.e. different offerings at different prices, even if it is the same product being sold), while 55% of specialists and semi-specialist shops stocked more than 300.[39] In a further survey conducted by Market Advisory Services Limited, a survey of the leading 56 lines of the five main manufacturers (Cadbury, Fry, Rowntree, Mars and Mackintosh) was conducted with 922 direct Cadbury accounts.[40] These 56 lines, equated to 171 packings, accounting for 35% of all industry packings, but 50% of total confectionery sales. The average number of lines displayed in grocers was 28, and the average in CTNs was 43. Only 15% of grocers were displaying more than 45 lines, but 54% of CTN were displaying more than 45. This was strong evidence that RPM should be retained under gateway (a), because the consumer was receiving more variety under the present regulation of distribution. However, as it will become apparent it was difficult to prove that increased variety was good for the consumer and beneficial for Cadbury.

In the RPM court case many of the eleven consumer witnesses stated that variety was not an important factor. For example, Mrs Stirling a managing director and owner of a typing and duplication business argued that "the variety of sweets available on the market is excessive".[41] Another 'impressive' witness, Mrs Young (BA Economics and Anthropology and Secretary of the Scunthorpe and District Consumer Group) argued that "the variety offered is far too great".[42] The composition of the consumer witnesses was biased, with the majority of witnesses occupying roles within consumer councils and living in professional high income households. With the consumer witnesses arguing against the value of variety, this gateway was effectively closed to Cadbury. Shortly after abolition of RPM, rationalization was identified by Cadbury as an inevitable consequence of the growing dominance of supermarkets whose business model was based on a high volume of turnover on a small number of product lines;[43] although Child and Smith note that it took Cadbury did until the mid-late 1970s to rationalise its lines and to match the economies of scale achieved by US competitor Mars.[44]

Another predictable outcome of RPM abolition was the reduction in the number of small independent retailers, which addressed gateway (b). The Census of Distribution for 1961 estimated that chocolate and sugar confectionery was sold through 217,000 retail outlets, the most outlets for any product category.[45] These outlets were critical to confectionery distribution, with independents responsible for 87% of outlets and 85% of turnover (see Table 1).

Table 1: Annual Confectionery Turnover by Store Format 1956 (exc. Co-operatives

Store Format	*No. Outlets*	*%*	*£m. Turnover*	*%*
Multiples (5+ branches)	32,600	13	29.7	15
Large Independents (£4,000+)	6,300	3	39.0	20
Medium Independents (£2,000 - £4,000)	12,900	5	39.1	20
Small Independents (£500 - £2,000)	64,300	26	63.3	32
V. Small Independents (under £500)	130,300	53	25.3	13
All Independents	**213,800**	**87**	**166.7**	**85**
Total	246,400	100	196.4	100

Source: A.C. Nielsen & Co Census[46]

Following the restoration of competition following rationing, the bulk of Cadbury sales (44.1%) went through small CTN stores. However, the number of CTNs had begun to fall during the period from 1953 to 1963 and continued to fall leading up to the court hearing. For example, the number of independent UK sweet shops fell 8 per cent between 1964 and 1966, the majority doing less than £200 per annum with Cadbury. The number of independent grocers that Cadbury was dealing also underwent a dramatic decline, from 31,097 in 1957 to 16, 798 in 1966.[47] One of the reasons for this decline is that small independent shops could not afford the rents in new post-war shopping precincts. Another trend was the rising power of self-service multiples and supermarket retailers, but this had barely begun to impact Cadbury distribution in the period up to 1963, with the main influence experienced through Co-operative stores which were a lead innovator in self-service retailing in the early post-war period. In 1967, David Brown, Director of Market Research at Cadbury, estimated that:

> …2,625 supermarkets were responsible for 3½ % of all confectionery sales; other self-service grocers, 17,400 in all, for 5½ %; between 100,000 and 110,000 counter service grocers for 13%; and 19,250 other food retailers, another 6%. Add to that 1,570 department and variety stores, 10%; 8,080 other non-food outlets, 2%; and 39,500 "non-shop" outlets (cinemas, etc.), 12%. This leaves sweet-shops- mainly of the confectioner-tobacconist newsagent type- with the other 48%.'[48]

There is evidence to suggest that Cadbury was content to see the reduction in very small independents (i.e. <£500 annual sales), because in 1963, although 53% of retail outlets were of this type, they were responsible for only 13% of total confectionery sales.[49] In the inter-war period of the twentieth century, Cadbury had refused to directly supply small 'inefficient' retailers (i.e. <£500 annual sales), and had also chosen to give less preferential terms to wholesalers that supplied these small shops.[50] Wholesalers, therefore, were regarded as creating high margins and limiting customer value for money.[51] The bias in favour of larger outlets and accounts is witnessed in the special discounts scheme addressed in the next section.

Trade Margins, Special Discounts and Concessions

Throughout the twentieth century, Cadbury maintained a long standing policy of delivering lower consumer prices, based on the assumption that lower prices would stimulate demand. This logic was outlined by Laurence Cadbury at the Cadbury New Year Party in 1929, when he argued that mechanisation had resulted in reduced prices for the consumer, which meant that wages were worth more in real terms, and that projected increases in consumption would create an overall increase in employment.[52] Therefore, Cadbury only conceded greater margins to distributors if the consumer price fell, or if greater incentives were required to distribute products more effectively; for example, if distributors costs rose too high to support retail services.

During 1940-1954 food was rationed in the UK and the Ministry of Food enforced a distributors margin of 18.75% on confectionery.[53] Under conditions of managed demand there was no incentive to price cut and competition between retailers was curtailed. During the period of food controls, retailers sought service improvements and efficiency savings by adopting self-service methods, which had become established in the United States in the early part of the twentieth century.[54] With the restoration of market competition in the mid 1950s, there is still debate about how important RPM was in shaping grocery distribution, because prices were not uniformly enforced and not all products were subject to RPM. A group of approximately 80 manufacturers collectively enforced prices through the General Proprietary Articles Council (GPAC) and a further 40 non-aligned manufacturers, including Cadbury and Rowntree, enforced RPM.[55] Although RPM was important in fixing consumer prices, there was constant individual and collective bargaining over trade margins within the supply chain. For example, The Joint Committee of Confectionery Distributors and the National Union of Retail Confectioners both lobbied hard for increased margins with confectionery manufacturers throughout the late 1950s and 1960s.

The calculation of trade margins was of critical importance under price maintenance. The percentage margin was the difference between the consumer price and the lowest trade price expressed as a percentage of the consumer price. Inter-war distribution margins ranged from 31.8% to 33.3% for chocolate lines with an industry average of 40.7% for sugar confectionery. In the post-war period, these margins declined. For example, distributors' margins were set at 22.5% on assortments and chocolate blocks in 1962, rising to 23.9% following the imposition of a 15% purchase tax on sugar and chocolate confectionery in 1962.[56] In total, for the year ending July 1964, distributors (i.e.

wholesalers and retailers) took 26.6% (£72m) of the £270m confectionery market (£300m less purchase tax), leaving manufacturers with lion's share of £198m.

The threat for manufacturers seeking to enforce prices and margins is that distributors may substitute a rival brand, which may have a more generous margin. This threat explains the longstanding existence of agreements between manufacturers, which established industry wide margins for distributors in order to regulate the costs of distribution and limit competition between manufacturers (i.e. horizontal controls). Between 1919 and 1935 there was an agreement between Cadbury, Fry and Rowntree known as the Cheltenham Agreement.[57] In 1935, Nestle and Terry joined the Agreement, which became known as the Five Firm Agreement. Under this agreement, for example, a ceiling upon advertising costs was established:

> "The cost of individual items of advertising material supplied to shops was limited by the Agreement, as were also the amounts which might be paid for advertising space in customer's literature. Gifts to customers, in cash or in kind, were prohibited, subject to certain closely defined exceptions."[58]

The effect of these agreements was to control the margins and mark up of the goods manufactured, which was designed to limit competition to the quality of the product manufactured, thus favouring small specialist confectioners and large capital intensive manufacturers.

When the Restrictive Trade Practices Act was introduced in 1956, Nestle withdrew from the Five Firm Agreement, basing its decision on experiences in Europe where similar legislation had been introduced. A new Four Firm Agreement was signed in 1957, which after several major amendments existed until 1962, at which point several parties felt it was indefensible to continue and thus ended formal collaboration. Although these agreements favoured the manufacturers, the firms involved sought to establish fair treatment for distributors. For example, Cadbury monitored distributors' costs in three main ways: through its controlling interest in confectionery retailers R.S. McColl and John Forrest; panel data from 40 independent retailers; and information provided by the Cocoa, Chocolate and Confectionery Alliance (CCCA), and various retailers' and wholesalers' associations.[59]

In line with other manufacturers, Cadbury also offered a range of special discounts over and above the fixed trade margin to reward co-operation (e.g. in relation to promotions), early payment and volume. These discounts had historical precedent. For example in 1936, Cadbury was making advertising allowances to distributors in monopoly positions (e.g. railway kiosks, cinemas and theatres), making payments between 2.5% and 12.5% to 902 customers. In the ensuing years Cadbury reduced the number and level of payments, culminating in the Special Discount Scheme of 1957, which was negotiated with the members of the Four Firms Agreement.[60] The special discount scheme gave Cadbury retail and wholesale accounts of over £50,000 a 1% discount, and retailers turning over £100,000 a 2% discount. In addition, certain retailers were given special consideration and were entitled to a 3% discount. The only exception was Woolworths, which with over £1m of turnover was granted a 4% discount. In 1960, 71 distributors received a 1% discount, 6 received 2%, and 35 achieved 3%.

The 1957 Special Discount Scheme was deemed a failure by Cadbury for a number of reasons. First, for those distributors who qualified for a discount there were no further rewards for increased effort. Second, Cadbury was losing customers to competitors whose discounts were more easily attained. Third, once the 1% discount was granted for co-operation it was difficult to repeal and there was no incentive for co-operation to continue. Fourth, the discounts scheme encouraged amalgamations by distributors to extract greater bargaining power, which ultimately worked against Cadbury interests. To remedy these failures, Cadbury introduced the Incentive Bonus Discounts in 1962, which paid 5% on the amount of increased turnover firms achieved compared to their previous year (e.g. an increase of £10,000 would return a £500 bonus). Co-operation was defined as increased trade, which Cadbury calculated would induce retailers to accept Cadbury merchandising and advertising to a greater extent over and above rival companies. In offering an incentive bonus, Cadbury gained a first leader advantage over rival manufacturers in the UK. The Special Discount Scheme was extended in 1964 (see table 2), to further incentivise increased turnover by setting the entry level at £20,000 and creating a more finely graduated scale of increase. In addition to these special discounts a further 1.25% was offered to all those accounts paying promptly.

Table 2: Cadbury Special Discount Scheme 1964

Customers Annual Trade	*Amount of Discount*
£20,000	¼%
£30,000	½%
£40,000	¾%
£50,000	1%
£60,000	1¼%
£70,000	1½%
£80,000	1¾%
£100,000	2%

Source: Cadbury[6162]

To sum up, in the period leading up the RPM hearing there was undoubtedly greater incentives and rewards for volume retailers, which were undoubtedly the result of buyer pressure from large distributors. Therefore, the multiples and supermarket retailers were already effectively asserting their influence on manufacturers. Conversely there was little reward or incentive for wholesalers, which were perceived as an intermediary barrier to obtaining retail co-operation in promotions and merchandising. One of the functions of wholesalers was to offer credit to small retailers, which were perceived by Cadbury to under order as a result. We must remember that during the 1960s, Cadbury was paying for delivery of goods to its retail customers, for advertising and also special fittings for stores. The impact of Cadbury marketing strategy is difficult to assess. Demand for confectionery remained static. Figures generated by Cadbury show that demand for chocolate was 3.9 oz per head per week in 1954 and was at the same level in 1964.[63] Moreover, the demand for sugar confectionery had actually fallen during this ten year period from 5.0 oz per head per week to 3.5oz. Although consumption had declined, inflationary pressures and the introduction of purchase tax meant that during the same period, the total expenditure on confectionery had increased from £252m to £308m.

What happened after the decision was reached?

Shortly after the decision was reached to abolish RPM, Cadbury's confectionery division numbered amongst its strengths; a wide range of products; massive advertising support; an active sales force; many brand leaders; higher profit margins compared to the majority of grocery lines; new product development; modern production and quality control; and a reputation for quality and integrity.[64] According to David Brown, Cadbury's Market Research Director, in 1967 just 3.5% of all confectionery sales were through 2,625 supermarkets.[65] Cadbury realised that there were over 10,000 count lines in the UK confectionery market, and that the major growth in distribution would come through supermarket grocery stores, which on average stocked no more than 100 lines. Writing in May 1968, Crane also states that sales by large manufacturers to supermarkets have roughly doubled since abolition of RPM and that consumption had risen to 8.0oz per week.[66]

Although the leading manufacturers focused their production upon leading lines, Cadbury recognised that some form of rationalisation was inevitable:

> '...the confectionery trade is faced with no alternative but to adopt new merchandising tactics to overcome not only severe inter-trade competition, but fierce competition from the grocery trade, which is now able to implement its customary promotional practices on confectionery.'[67]
>
> 'The confectioner needs variety, while the grocer requires volume lines which are attractively packed, heavily advertised and which sell themselves.'[68]

Cadbury had already experienced this brave new post-RPM world through its grocery division. An internal Cadbury memo to all marketing group members in August 1964 highlighted that a number of multiples and supermarkets were requesting promotion allowances on grocery lines:

> <u>TESCO – 321 branches</u>
> £300 which represents 10% of the cost of advertising in the Daily Mirror and a bonus to subsidise the cut.
>
> <u>ELMO – 30 branches</u>
> £25 to cover cost of posters and subsidy to aid cut.

> ANTHONY JACKSON – 39 branches
> 2/6d. per dozen for the duration of the promotion
>
> VICTOR VALUE – 253 branches
> No pay – no promotion
>
> KINLOCHS (Wavy Line)
> The problem here is slightly different as groups generally do not favour national promotions. Their requests for maximum effort are for 3/6d. per shop and 5% promotional allowance.
>
> LONDON CO-OP – 397 branches
> Are sitting on the fence watching the activities of competitors meantime.[69]

This memo also revealed that in the grocery business, Cadbury was resisting promotional allowances from two self-service chains that were operating a number of supermarkets, Adsega and Buywise. Cadbury manager N.J. Newbold describes these as "deal conscious and concession spoilt operators".[70] Cadbury strategy with multiples involved dealing with local stores separately to central headquarters through their representatives, claiming that "we shall achieve the off-shelf promotions in any events generally on a local basis."[71] It is worth noting that in 1966, Cadbury only supplied Sainsbury's and Maynard through central warehouses.[72] Future research may reveal more about how knowledge was transferred between the grocery and confectionery divisions to inform the promotion of confectionery goods following RPM abolition.

Selling though self-service and supermarket outlets required a new focus on merchandising and Cadbury sought to trial new display techniques in Bishops Stores Ltd., the London based self-service and supermarket food retailer. Future merchandising policies and decision making at Cadbury would be based on evidence.

> 'Multiple and self-service store operators will be asked to establish permanent confectionery sections, or permit existing sections to be redesigned, following prepared merchandising principles. Sales for a given period will be carefully measured and related to sales over the same length of time before the section was redesigned.'[73]

Not only would new techniques need to be trialled, but Cadbury identified that supermarket retailers would need to be educated about modern merchandising methods.[74] In the Fry's-Pascall-Murray force of 116 reps and 40 merchandisers, Cadbury devoted 16 merchandisers to work exclusively with supermarket outlets.

In April 1968, Cadbury announced that it was no longer going to recommend retail prices on *grocery* products.[75] Then in May 1968, Cadbury launched a new marketing strategy with Tesco by offering Green Shield Stamps on packs of Mini-Rolls in a two week promotion. Cadbury defended its decision in the *Grocer* magazine:

> "Allowances are being made and these are in line with modern marketing methods where certain sums are made available for promotions with major customers with high turnover – the method of spending these sums being determined by the customer."[76]

This offer of stamps was the first of its kind by a British manufacturer and invoked criticisms from rival non-stamp retailer Sainsbury, whose comments gained support from Allied and Fine Fare.[77] Non-stamp retailers saw the Cadbury deal as offering a below the line reduction to Tesco. Retailers also feared that Cadbury might start printing stamp offers on all its packs, which would discriminate against non-stamp trading competitors on a more permanent basis.

Cadbury's dealings with Wholesalers and Voluntary Buying Groups

In the new environment of price cutting, brand management became even more important to manufacturers. Not only did they have to make the retailer want the product, they now had to make the customer demand the product.[78] As Cadbury argued:

> "...the confectionery trade is faced with no alternative but to adopt new merchandising tactics to overcome not only severe inter-trade competition, but fierce competition from the grocery trade, which is now able to implement its customary promotional practices on confectionery."[79]

In 1968, the confectionery market was worth £325m, with £109m accumulated through 150,000 grocery outlets and £216m accumulated through 60–70,000 confectionery outlets. The conclusion, as Cadbury perceived it, was the massive potential of grocers to distribute confectionery, with more than double the outlets, but only half the turnover of confectioners. In focusing upon the grocery trade, Cadbury opted to seek to control merchandising, primarily by incentivising those retailers who would co-operate with them in merchandising Cadbury products. In 1968, half of Cadbury's confectionery distribution was direct through retailers and the other half through 1,200 wholesalers. Cadbury perceived the wholesalers as a problem channel.

The importance of brand management and control of merchandising for the manufacturer was fully appreciated by multiple retailers, but to a lesser extent by wholesalers and voluntary buying groups who simply equated the size of account with levels of discount. For example, in March 1967 Cadbury was accused by wholesalers of discrimination when it was found that they were offering 2s. per case additional discount to multiples retailing Marvel.[80] Cadbury also chose to trial Smash (processed potato) with multiples in the north-east of England.[81] Wholesalers could not understand why they were receiving lower levels of margin to multiples, given the fact that they were bearing the cost of distribution to retailers and in many cases handling more goods than multiples.

We must remember that the net profit of wholesalers in the 1960s was approximately 1 per cent.[82]

Cadbury argued that the agreements it had in place with multiples ensured that extra margins were passed onto customers. Spar and voluntary group head offices suspected that Cadbury did not believe that reductions given to wholesalers would reflect in lower prices for consumers. However, by bringing inequalities to public attention, wholesalers were able to use the negative publicity surrounding Cadbury's margins policy to broker more favourable terms. For example, Spar Internationale held an account worth £20m in overseas trade.[83] In a visible campaign, it threatened to boycott Cadbury, thus forcing talks with Cadbury and securing a commitment from the firm to support wholesalers more consistently in the new year.

Conclusion

A word of caution is advised when using the RPM materials at Cadbury. Unlike other sources I have consulted in the Cadbury archive, multiple drafts of these typed materials exist, which are edited and corrected by hand. Therefore, it is sometimes difficult to work out which draft was authoritative for Cadbury management. On the positive side, much of the material is marked as private and confidential due to its containing sensitive marketing data, the majority of which is excluded from the contemporary history that was written about the Resale Prices Act.[84] The experience of working with these materials is of trying to reconstruct the firm's relations with its stakeholders from fragments of evidence, largely unsupported by the main catalogue. The risk of misinterpreting evidence is increased when working in this fashion, which is why I have relied upon secondary sources to support my reading of the archive. The great advantage is that these fragments are gathered in one place; the disadvantage is that the detailed story stops after Cadbury lost its case in 1967.

Further research is required to explore a number of key relationships as they developed following the case. First, the relationship between Cadbury and other confectioners that stayed out of the court hearings, most notably Mars. Second, the internal learning processes at Cadbury that transferred knowledge between grocery and confectionery divisions. Third, the developing relationship with supermarkets through sources such as the grocer magazine and other related trade and industry association journals. Finally, it is important to note that archives can inform public policy debates. As calls for an supermarket ombudsman increase, it now seems likely that it will be 2013 until anything is enacted. Given the evidence of the past, the only form of regulation that might stay the power of the retailers is some form of price maintenance legislation. However, given the current recession, which reflects the 'big freeze' of the 1960s in several respects, it is unlikely that the consumer will support legislation that will be framed by supermarkets as likely to increase food prices. Unless there is a major disruption of supermarket activities, by a new innovation, it appears unlikely that politicians will seek to put the genie of lower prices back in the bottle of some form of price regulation. It may also be the case that leading manufacturers would be reluctant to go back to a regulated system that might reduce overall demand.

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[6] I would like to acknowledge the help of Sarah Foden (Cadbury Information Manager) and Jackie Jones (Cadbury Information and Library Service) at Cadbury-Kraft for their support and access to the archive. I would also like to thank the Business Archives Council for the grant that made this research possible. Thanks also to Professor Gareth Shaw (The University of Exeter) for his advice during the early stages of this project.

[7] These materials have been catalogued by the author and a copy is with the Cadbury archivist for incorporation into future revisions of the catalogue.

[8] A copy of the Resale Price Maintenance listings is available from Sarah Foden on request (Cadbury Information Manager).

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