

CHAPTER V

METHODS OF COMPETITION AMONG SHOPKEEPERS

Under this heading, the writer shall discuss in general the methods of competition adopted by the various shopkeepers in Boacrah and the role played by prices and margins in their struggle for survival.

A. Prices and Margins

Each type of retail outlet depends for its existence on certain retail margins or discounts which determine the difference between the prices the retailer pays for the commodities and the prices he demands or gets. The retail margins are of two kinds: (a) those which are fixed by the wholesalers and/or the manufacturers by retail trade associations (b) those which are not fixed.

Fixed retail margins is a somewhat novel feature which in the first instance is due "the greater uniformity and ubiquity of the goods nowadays offered for sale."¹ It is therefore characteristic of most branded goods, especially those which are widely advertised.² Where the retail margin is fixed and maintained the competitive position of the retailer changes fundamentally. He has to give up the idea of setting a margin for himself or of lowering the price to

1. Harman Levy, The Shops of Britain, March, 1949.

2. See Appendix I on page 44 for list of major items of price-fixed branded goods sold in Boacrah Sundry shops.

attract more customers than his competitors. What he must do is to discover whether the fixed margin granted him is sufficient to cover his cost. In other words he must secure enough turnover to exist on that margin and shape the costs at which his shops are run so as to leave a profit on the maximum turnover he can achieve. The consequence of this development is that price competition is less important in some important commodities and this is replaced by competition for custom as a way of maximising the gross turnover.

Another consequence is that it tends to assure the survival of a multiplicity of small shops and diminishes the "death" rate among the less efficient. This is because when the margins are fixed by the manufacturers, wholesalers, or the retail trade associations, due consideration is given to rates which will allow shops of average business efficiency to secure profits. This explains why in retail trade we find wide divergences between retailers' profits even in the same branch of retailing, and yet the high profitability of one unit does not necessarily have the effect of ousting the others. The last consequence is that retailers always try to escape from the rigid margin of the price-maintained branded article by adding unbranded goods to their stocks.

It is in the field of unbranded goods that we mostly find the non-fixed retail margins. Here the retailer is left with a certain flexibility in his resale by offering reduced prices to attract more customers.

In most of the shops in Benerah non-branded goods formed a larger proportion of their stocks.¹ Thus their margins are more flexible and they can alter the prices of their goods in any direction they like. Why non-branded goods formed a larger portion of their stocks is probably explained by the conservatism on the part of the village customers as regards branded goods which are mostly not items of necessities as are most non-branded goods. But some items of branded goods have become increasingly popular owing to intensive sale and advertisement campaigns carried on the part of some manufacturers and wholesalers through their agents in the village, e.g. "OPD," "TAB" washing soaps. But some shopkeepers kept branded goods not because there is a great demand for them but because of their style-value in order to create the impression that their shops are fully stocked.²

It has already been observed that in the case of price-fixed branded articles price competition is replaced by competition for custom. This takes many forms such as the (a) provision of free delivery services, (b) wide advertisement campaign (small retailers are actually spared this function, as it is already undertaken by manufacturers and wholesalers through the Malayan Advertisement Agency),

1. See Appendix I on page 49 for details.
2. Some shopkeepers displayed empty tinned goods with picturesque labels on the shelves in order to give the fully stock atmosphere.

(c) good personal services requiring tactfulness, pleasantness of speech and manners and politeness (these qualities are very important when dealing with Malay customers), (d) the grant of rebates, concessions or cheap prices, (e) decorations to make the shops look attractive, and (f) the grants of credit to gain a faithful circle of customers.

Normally shopkeepers seldom resort to price competition as this would in the long run be harmful to all. So a policy of "live and let live" and some sort of gentlemen's agreement was practised among them.

In the process of bargaining between customers and shopkeepers, the latter usually give a higher quotation on the assumption that the former are ignorant of the real prices of the goods bargained for. In most cases when the assumption was correct, the shopkeepers secured a profitable sale. Thus in this sense the shopkeepers in Boserah operated in an imperfect market where, on the one hand, a gentleman's agreement prevented shopkeepers from competing against each other and, on the other, price ignorance on the part of the village customers enabled the shopkeepers to fix high prices.

Actually most of the factors which promoted the growth of small shops, as discussed in Chapter I², also explained the competitive

² See Chapter I for further discussion on this point.

position of the small shops in Basrah. Nearness to homes of the customer may be singled out for mention here to explain why some small shops are immune from the competition of other shops.

Some shopkeepers derived other sources of income beside their shops.¹ This factor greatly contributed to their relative competitive strength since these other sources of income may act as a second line of defence in their struggle for survival.

Low labour cost is also an important factor strengthening the competitive position of small shops in Basrah since nearly 80 per cent of the shops are on a family basis. The shopkeepers, family labour, the mainstay of their shops, is costless in the sense that they did not have to pay for it. But when nearly all shops employed family labour then their competitive strength varies with the intensity with which the members of the families work.

Lastly, the availability of financial resources to the shopkeepers is an important factor not to be overlooked in a discussion of their competitive struggle. Shops with an easy access to a plentiful supply of finance or credit certainly stand in a superior competitive position to shops with comparatively poor resources. In Basrah those shops which have earned the goodwill of the wholesalers by virtue of their high credit standing or loyalty as customers have a much easier access to the credit of the wholesalers.

1. See Chapter IV, pages 37 - 41 for further discussion.