THE NEED FOR CO-OPERATION AMONG INDEPENDENT
FOOD RETAILERS OF DENTON, TEXAS

THESIS

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For the Degree of

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By

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Denton, Texas
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CHAPTER I

YESTERDAY AND TODAY IN FOOD RETAILING

The past quarter century has brought about vast changes in the food retailing business. Twenty-five years ago, operating a food store was a fairly simple matter. The operating expenses that entered into the running of a store were small. Rents were low; so were wages. Then, there were few licenses. Taxes were nominal.

Food stocks, in those days, consisted largely of staples. People were not vitamin-conscious as they are today, and the average family diet was quite limited. The perishable foods consumed were to a great extent locally grown or produced. The merchant, therefore, was not compelled to carry a large variety of goods.

In many communities, particularly rural ones, money was scarce. The merchant who was able to extend credit from season to season found many customers. Most of them were good credit risks. The quality and price of the merchandise were chiefly of secondary consideration to the consumer. Then, too, travel was slow and difficult, a fact which made the nearest store the practical trading point.
Competition was not severe. To be sure there were competitors, but normally they were neighbors in the community who followed the accepted policy of "live and let live" in the conduct of business. The attention of big business was focused upon the problems of production, of providing food cheaply. There was no problem of distribution, and producers took it as a matter of course. The retail food dealer had no need for highly efficient merchandising methods. True, the good merchant kept a step ahead of the others, yet men with limited intelligence and capacity often made money -- good money.

But what a change has come about! Virtually every item that enters into the merchants' operating expense is higher than formerly. Rent, delivery, wages, taxes -- all have considerably increased. On the other hand, the margin that a foot retailer can exact has been slowly declining as competition has been constantly forcing food prices down. This downward trend is clearly indicated by recent Department of Labor statistics, which show retail food prices to be much below the average for the fourteen-year period from 1918 to 1932. The retail food price index averaged 141.7 as against the present index of 116.6.¹

The consumer is no longer tied to the nearest store. Modern methods of travel have transformed the consumer into

a shopper, moving from store to store, buying where she thinks she gets the most for her money, or where she gets the service and convenience she fancies. Neither is the consumer held to one particular store for credit reasons only. To a great extent she now has ready cash. Ties of long standing are broken today, often because of some small whim or fancy.

The food merchant now has a more discriminating public to serve -- one in which the woman buyer, with all her vacillation, is playing an ever-increasing part. One large food packer recently eulogized the woman in her new role as food buyer with this quotation from a company advertisement: "Food buyer supreme of all the world is Mrs. America. Value-wise and aware of her vital role in maintaining the family health, she picks her food purchases carefully and wisely." She is made highly health-conscious by producers who use every available means consistently to urge her to note the vitamin properties of their various products.

The comfort of "Mrs. America" has not been overlooked. Modern grocers must be ever seeking new items that save labor and simplify her work. Store arrangements have been changed, always with a view to increasing the comfort and

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convenience of the shopper. At the opening of a new store in St. Louis recently, the management explained the advantages of their ladies' lounge in this manner:

Young mothers especially, can leave their children in the lounge while they leisurely stroll through the store. Crayons and coloring books occupy the children while their mothers shop. Or if the women prefer, they can rest a bit in the lounge while the store clerk fills their order. . . . Customers can sit down for a smoke and cold drink and leave the store refreshed. 3

Competition in food retailing has reached a severity rarely found in other industries. Not only is there competition from similar stores, but drug stores and department stores have added food specialties and are pushing them with vigor. Multiple-store or chain operators have combined functions of manufacturing and warehousing with retailing to establish the most formidable competition the independent food merchant has yet encountered. The extent to which chain type retailing has permeated food distribution is discussed at length in a subsequent chapter.

Mass production has placed within reach of the family of average income a long list of items that a few years ago were considered luxuries or near luxuries. Maintaining this higher standard of living, particularly during periods of war and other adversity, created a rather constant strain on the family budget. The search for relief from this strain developed a definite price-consciousness among vast

3Ibid., p. 58.
numbers of food consumers. "Mrs. America" was emotionally conditioned to accept with open arms the corporate chain food store that promised to reduce her food costs by eliminating the "middlemen" who, in some vague manner, were supposed to stand behind the independent retailers, sharing their profits at the expense of the consumer. Chain advertisements pictured sordid examples of the number of hands that merchandise must pass through before it reaches the consumer. They pointed out the price of the basic material on the farm, and the greatly increased cost of the finished product to the consumer.

It is not difficult to see why the consumer was quite favorably impressed by the chain appeal, which on the surface appeared to be sound, but which failed to take into account the economic factors of "time and place utility" or to make any distinction between different types of services which increase the cost of distribution. The average consumer comes into personal contact with retail distributors, consequently she confuses the function of distribution with the activities of retail stores alone. For example: the consumer who has to pay seventeen cents for a can of a given product, when she knows the producer got only two cents for the contents of the can, considers that the spread of fifteen cents is too much. The "middleman" is to blame. Naturally, her thoughts turn to the retailer --
he is the one to whom she paid the seventeen cents. From her point of view, then, the retailer has "gypped" her.4

The chain food store, with its claim of lower retail prices, underwent rapid growth both in number of outlets and in volume of sales. During the seven years from 1920 to 1927, the number of stores operated by one leading chain system had increased nearly four times, while the sales volume increased slightly more than three times.5

Consumers could not see the steady development of monopolistic control over food distribution. Monopoly to them was a device to control prices and to increase the price of food. Certainly this new type of store with lower prices was a far cry from anything monopolistic. The essence of monopoly is control, and the consumer failed to recognize the fact that this control could be used to set prices on a low level as well as on a high one.

The appeal of lower prices, while probably the most important, was not the sole factor involved in the growth of the chain system. Reasons other than price comprised 71.86 per cent of the total number of reasons mentioned by regular chain-store customers in a survey to determine why they favored the chain.6 Convenient location, wider

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4Hector Lazo, Controlled Competition, p. 9.


6Theodore N. Beckman and Herman C. Nolen, The Chain Store Problem, p. 171.
selection, better quality, good store appearance, advertising, cleanliness, and many other factors played a part in chain store expansion.

Technological progress has also been an important factor in the change that has taken place in retailing food products. Great advancements in communication have made it possible to extend the supervision of business enterprises over a much larger physical area and range of activities. Managerial duties may now be subdivided into specialized tasks. It would be difficult to envision the operation of a varied and fast-moving enterprise such as a large chain-store system without the use of the telephone and the telegraph. The typewriter, the computing machine, the involved cash register, and other instruments of modern science and invention have made for a mechanized and consequently standardized business management.

Centralization of management gave the chain the ability to make every unit profit from the experience of the other. It also afforded greater opportunities for surveys in merchandising and market demands before formulating management policies. The inevitable result of these advantages was an intelligent and aggressive management, the equal of which could be found in few independent stores.

Beginning about 1935, another type of retail outlet entered the food distribution picture. The supermarket, as it is called, probably is an outgrowth of the tremendous
success attained by the chain system in so far as its characteristics generally parallel those of the chain. Its origin on the West Coast of this country suggests it borrowed the name "super" from the motion picture industry, where the term is used rather promiscuously to augment an exhausted list of superlatives in motion picture publicity.

It is difficult to lay down any exact definition of a supermarket or to classify any particular retail establishment as being in this category. Generally speaking, there are five points which seem to characterize the supermarket. They are: (1) a minimum of normal service; (2) provision of ample parking space; (3) large unit sales; (4) numerous leaders; and (5) liberal advertising. Most supermarkets are operated on a self-service basis, and offer no credit or delivery service. They are usually located in comparatively low-rent districts and large parking areas adjacent to the building itself give the "super" tremendous advantage over stores in highly congested shopping districts. Their generous use of leaders to boost their business is designed to attract customers from distances beyond the range of smaller stores and to stimulate consumer purchases of larger quantity. Wide advertising programs, of course, are simply a means of placing their various appeals before more people over an extended area.

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Consumers evidently responded to the supermarket appeal, as estimates for 1937 credited the "super" with doing seven per cent of the total retail grocery business. Such a figure would represent a volume for the average supermarket nearly twenty-five times as large as that of the average independent store.

The first supermarkets were operated by newly formed companies with only one or perhaps a small group of stores. Since then the corporate chain systems have begun to establish similar stores of their own. This latter movement has resulted in great measure from efforts to avoid chain store taxes based upon number of outlets; however, the element of competition from the supermarket companies cannot be wholly disregarded. It may develop that the large corporate chains will absorb the smaller supermarket companies through purchase, as was the case with many smaller chain groups some years ago. The precedent for larger stores has been set and we may expect to see the time when the major part of chain food sales are made in the supermarket type of store.

The spectacular growth of chain and supermarket systems was not viewed with indifference by the independent operator. In fact, the opening of a chain outlet in any given

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community usually marked the beginning of a bitter conflict of opinions and emotions in that community. The struggle grew, both in scope and intensity. Existing independent organizations were called upon to help unite their constituents. The fight provided the impetus for new independent associations.

The chains were assailed as representing everything unfair and wicked. The corporate chains, meanwhile, were not altogether inactive in the conflict. They held up the independent operator as a symbol of everything that is inefficient and wasteful. These militant campaigns were probably the foundation of public relation departments now maintained by all major corporate chains.

Struggles between the chain and the independent were not confined to the food business alone. There is hardly a major field of retailing that has not been touched by the chain movement; however, it is highly concentrated in a few kinds of retail distribution. The frequency with which consumers visit food stores may account in some measure for the intensity of the conflict in this field. As has been mentioned, the bitterness varied in different localities.

It was inevitable that the arousing of emotions so near the financial interests of so many would find its way toward the exertion of pressure upon legislative bodies. Consequently, measures and taxes against chain stores
steadily increased despite great effort and expenditures by the chains to defeat them.

Such legislation has been of three general types: (1) measures related to the Sherman Act and other legislation designed to preserve competition; (2) price laws affecting the terms upon which commodities may be bought and sold; and (3) punitive taxation, as exemplified by state chain-store taxes. As yet, the chains have been able to impede attempts toward federal chain-store tax laws; however, at this writing, support is being rallied for just such a measure.

It must be assumed that legislation against the chain systems was designed with the view of protecting the consumer through the maintenance of the independent merchant on a competitive equality, or near equality, with the distributive corporation. Whether or not this has been the result is a matter of question. From some standpoints it would seem that certain measures have worked in the opposite direction. Tax laws based upon the number of stores, for instance, have encouraged chains to close several smaller stores in a community in favor of one supermarket type. Thus, they are able to preserve virtually the same volume of sales while affecting a reduction of operating expenses, and the resultant saving, when reflected in lower prices,

\[9\text{Ibid.}, \text{p. 145.}\]
tends to further the advantage they enjoy over the independent store.

The Robinson-Patman Act, passed in 1936, is one of the best examples of the second type of legislation. It attempts to stipulate the specific terms or conditions upon which price differentials, quantity discounts, and various kinds of rebates, heretofore enjoyed chiefly by chain operators, are legitimate. Such allowances are permitted, provided they are limited to actual savings in cost of manufacturing, selling, or delivering of merchandise involved in a transaction; and are available on an equitable basis to all firms dealing under like conditions. The chains, thus denied the privilege of receiving special concessions from producers or processors, have turned more than ever before to the operation of production and processing facilities of their own. The result, again, is contrary to the intention of the law.

Generally, the history of attempts at regulation of monopolistic practices bears out the fact that although isolated monopolistic acts may be thwarted, the effects of such acts, over which control is intended, spring up elsewhere under a different identity. Monopoly cannot be controlled in this manner. It must come from control of the philosophy and the environment that give rise to monopolistic practices.
Since this study is concerned with the problem of sustaining the independent food retailer, it is well to determine to what extent he deserves to function in our distributive pattern.

The underlying philosophy of this work is founded in the premise that political democracy in this country is based upon the principles of freedom of action, equality of opportunity, freedom of enterprise -- in a word, economic democracy. When economic democracy ceases to exist, then political democracy becomes a farce. Many times through the years this nation has paid with the blood of her citizens to preserve her political democracy. It follows that she likewise values economic democracy highly. "Individual merchants helped to build this nation, and individual merchants are necessary to bring it to its full fruition."\(^{10}\)

It is imperative, then, that independent retailers be preserved, not for sentimental reasons, but only to the degree in which they efficiently serve the community. How, therefore, can they obtain the greatest efficiency in their service?

Assuming that corporate food chains have exhibited definite monopolistic tendencies, a point which will be discussed in greater detail later, what can be done by the independent dealer to counteract the trend? Legislation

\(^{10}\)Hector Lazo, *Retailer Co-operatives, How to Run Them*, p. xii.
has been of some help, but it offers very little hope of solving the problem.

It becomes more and more apparent that if the independent is to survive, he must do so through his own efforts in conjunction with the efforts of others like him. As a group, they must seek out the factors that made for the spectacular chain-store growth and adapt them to their own businesses so far as possible.

But this can be done only with proper organization, and it is the primary purpose of this study to determine the potentialities of such an organization among the independent retail grocers of Denton, Texas.

The two chain food stores in Denton are operated by two of the largest chain corporations in the country. The spectacular growth of these and other similar corporations is depicted in Chapter II.
CHAPTER II

GROWTH OF THE MULTIPLE-UNIT SYSTEM OF OPERATIONS

The origin of the chain system in food retailing is commonly credited to George H. Hartford, almost a century ago. In those days tea was one of the most important articles of trade. Grown in China, this product entered the usual channels of transport, namely, from grower to ship owner to broker to wholesaler to retailer and finally to consumer. The owners of these facilities were firmly entrenched in the tea trade, and they guarded their positions zealously. About the only way one could acquire a cargo and gain admittance to the trade was through successful bidding at public sale on shipments declared free by court order after the death of the consignee. Occasionally shipments were rejected for one cause or another, but such cases were few indeed. George H. Hartford purchased one of these stray cargoes back in 1859. His efforts to dispose of it, through the simple expedient of establishing several retail stores, amounted to the modest beginning from which our modern chain store system has evolved.

It was this same Hartford enterprise that later brought
about the Great Atlantic and Pacific Tea Company of America. It was this Atlantic and Pacific Tea Company that later became the greatest chain-store concern in the world. In 1934 it was reported to have owned about 15,200 retail grocery stores, the net sales of which were $840,000,000, an amount estimated to be about eight per cent of the total grocery business done in the entire nation.¹

Most defenders of the corporate chain system point to its early inception, and justify its present immensity as being the result of slow, continuous growth. But few significant food chains today can boast of such a historical background.

The other great system, with which this study is more especially concerned, had its beginning in 1915. In that year a young man by the name of M. B. Skaggs bought his father's grocery store in American Falls, Idaho, and began business with very little capital. Two years later, he was able to open another store; this time in Burley, Idaho. The next year, he acquired a store in Blackfoot, Idaho. Three of Skaggs' four brothers became identified with him, while the fourth brother went elsewhere to plan for the opening of his own store. The first group developed the Skaggs United Stores; meanwhile the other brother developed

¹Wright Patman, "Excerpts from Congressional Record," Proceedings and Debates of the Seventy-sixth Congress, First Session, p. 4.
the Skaggs Cash Stores. In 1926 the five brothers joined forces and organized the firm known today as Safeway Stores, Inc.

By 1931 the number of stores owned and operated by Safeway had reached 3,527, and its share of the total grocery business had increased proportionately.\(^2\) Between 1931 and 1939 the number of Safeway stores decreased to 2,654.\(^3\) This decline is accounted for by the merging of several stores in a community into one supermarket type, and does not necessarily represent a corresponding decrease in the volume of sales.

Besides Safeway and Atlantic and Pacific, there are quite a number of other food chains that operate on a more or less nation-wide scale. Among the more important ones are Kroger, First National Stores, National Tea, and American Stores. Table 1 shows the number of retail units operated by five of these companies for the fifteen-year period between 1920 and 1936. Two of these companies, Atlantic and Pacific and Safeway, operate retail units in Denton, Texas.

In addition to the larger chains, there are a great many chains whose operations are limited to one state, or


\(^3\) Ibid., p. 999.
TABLE 1

NUMBER OF RETAIL UNITS OPERATED BY THE FIVE LEADING GROCERY CHAINS, 1920-1936*

<table>
<thead>
<tr>
<th>Year</th>
<th>The A. &amp; P. Co.</th>
<th>Kroger Grocery Co.</th>
<th>American Stores</th>
<th>Safeway Stores</th>
<th>First National Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920..</td>
<td>...</td>
<td>...</td>
<td>1,243</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1921..</td>
<td>5,217</td>
<td>...</td>
<td>1,274</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1922..</td>
<td>7,350</td>
<td>1,413</td>
<td>1,376</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1923..</td>
<td>9,303</td>
<td>1,800</td>
<td>1,475</td>
<td>309</td>
<td>...</td>
</tr>
<tr>
<td>1924..</td>
<td>11,421</td>
<td>2,127</td>
<td>1,630</td>
<td>439</td>
<td>...</td>
</tr>
<tr>
<td>1925..</td>
<td>14,034</td>
<td>2,856</td>
<td>1,792</td>
<td>580</td>
<td>...</td>
</tr>
<tr>
<td>1926..</td>
<td>14,611</td>
<td>3,569</td>
<td>1,963</td>
<td>766</td>
<td>1,681</td>
</tr>
<tr>
<td>1927..</td>
<td>15,671</td>
<td>3,749</td>
<td>2,133</td>
<td>915</td>
<td>1,717</td>
</tr>
<tr>
<td>1928..</td>
<td>15,177</td>
<td>5,250</td>
<td>2,546</td>
<td>2,020</td>
<td>2,002</td>
</tr>
<tr>
<td>1929..</td>
<td>15,418</td>
<td>5,575</td>
<td>2,644</td>
<td>2,066</td>
<td>2,549</td>
</tr>
<tr>
<td>1930..</td>
<td>15,737</td>
<td>5,165</td>
<td>2,728</td>
<td>2,691</td>
<td>2,548</td>
</tr>
<tr>
<td>1931..</td>
<td>15,670</td>
<td>4,884</td>
<td>2,806</td>
<td>3,527</td>
<td>2,546</td>
</tr>
<tr>
<td>1932..</td>
<td>15,427</td>
<td>4,737</td>
<td>2,977</td>
<td>3,370</td>
<td>2,705</td>
</tr>
<tr>
<td>1933..</td>
<td>...</td>
<td>4,400</td>
<td>2,882</td>
<td>3,291</td>
<td>2,653</td>
</tr>
<tr>
<td>1934..</td>
<td>...</td>
<td>4,352</td>
<td>2,859</td>
<td>3,201</td>
<td>2,623</td>
</tr>
<tr>
<td>1935..</td>
<td>...</td>
<td>4,236</td>
<td>2,826</td>
<td>3,405</td>
<td>2,556</td>
</tr>
<tr>
<td>1936..</td>
<td>15,000*</td>
<td>4,212</td>
<td>2,816</td>
<td>3,364</td>
<td>...</td>
</tr>
</tbody>
</table>

*Data in this table taken from Temporary National Economic Committee, Monograph 35, p. 6.

perhaps to a small group of states. Although such systems do not figure highly in the national picture, they very often exert a powerful influence in their immediate locality. The Sanitary Grocery Company offers a very good example. Of the 296 stores operated in three states by Sanitary, 181 are located in the city of Washington, D. C., alone.\(^4\) Obviously,

\(^4\)Ibid., p. 1005.
they are in a position to exercise considerable influence in the food affairs of the nation's capital, and particularly is this true when one considers the fact that the entire Sanitary system is merely a subsidiary of Safeway Stores, Inc. Add to this the fact that fully one third of all Safeway units, as such, are located in California alone, and the sphere of influence wielded by the corporate chain takes on enormous proportions.

In this light, calculations based upon national figures become quite inaccurate and almost meaningless when applied to individual companies. A company which does a very small volume of business nationally may be, and often is, the dominating force in the food distribution of a given region. When these dominated regions are plotted on a map of the United States, the pattern that unfolds might well give rise to speculation as to whether or not the arrangement came about through accident.

There are other peculiarities of circumstance which could still further arouse speculation of this nature. One of the principal owners of the Atlantic and Pacific Tea Company is a director in the Guaranty Trust Company of New York. There are interlocking directorates between this bank and the Chase National Bank of New York, the Bankers' Trust Company of New York, the Chemical Bank and Trust Company of New York, and J. P. Morgan and Company of New York,
and the New York Trust Company. These six banking companies just mentioned are part of a group of twenty-four banking companies whose combined resources are equal to approximately one third of the total resources of all the banks in the United States. There are close interlocking directorates between this group of twenty-four banks and the 175 non-financial corporations that own fifty-eight per cent of the corporate wealth of the country.  

Such figures offer a passing glimpse of the unlimited possibilities of manipulation.

As stated in the preceding chapter, the growth of the chain system was rather phenomenal. This was true in many phases of distribution other than that of food. In fact, from 1900 to 1929, a period of twenty-eight years, chain stores of all fields multiplied 2,800 per cent.  

It is evident that such wide expansion was not a product of its own momentum. Outside financial assistance was necessary, and getting it required transacting with such banking combinations as the ones mentioned above. This may account for the fact that supposedly unrelated interests are often discovered to have a very active voice in the management of large corporate chain-store organizations.

As the success of the larger chain systems became more

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5 Patman, op. cit., p. 4.
6 Beckman and Nolem, op. cit., p. 39.
widely known, the response was the establishment of numerous local systems based on imitation of the larger chains. By 1929, 35.4 per cent of all chain stores were classified as belonging to local chains. By 1935, this ratio had dropped to 13.4 per cent.\(^7\) In other words, this means that local chains are losing their place to sectional and national organizations, and that the chain store business is becoming concentrated in the hands of fewer and fewer enterprises. Applied to the grocery field alone, this trend is reflected in the fact that forty-seven per cent of all chain stores are in the hands of but three organizations.\(^8\) These three chains, then, comprise virtually one-half of the group (all chains) that today are selling approximately forty per cent of all food products sold through retail outlets, both chain and independent.\(^9\) Table 2 shows the volume of sales each year of four leading chains, covering the seventeen-year period between 1919 and 1937.

It is interesting to note how little these sales declined during the depression years of 1930-1933; and how rapidly they recovered during the next three years. The changes in retail prices were perhaps the greatest factor in the slight fluctuation of sales after the peak period had been reached. The cause of Safeway's continual increase,

\(^7\)Ibid., p. 38. \(^8\)Ibid., p. 40. 
\(^9\)Temporary National Economic Committee, op. cit., p. 5.
TABLE 2

ANNUAL VOLUME OF SALES FOR FOUR LEADING GROCERY CHAINS, 1919-1937*

<table>
<thead>
<tr>
<th>Year</th>
<th>Atlantic and Pacific Co.</th>
<th>Kroger Grocery Co.</th>
<th>The American Stores</th>
<th>Safeway Stores, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919</td>
<td>$194,647,000</td>
<td>...</td>
<td>$76,402,000</td>
<td>...</td>
</tr>
<tr>
<td>1920</td>
<td>235,303,000</td>
<td>$50,706,000</td>
<td>103,059,000</td>
<td>...</td>
</tr>
<tr>
<td>1921</td>
<td>202,434,000</td>
<td>44,851,000</td>
<td>86,066,000</td>
<td>...</td>
</tr>
<tr>
<td>1922</td>
<td>246,941,000</td>
<td>53,754,000</td>
<td>85,866,000</td>
<td>$12,468,000</td>
</tr>
<tr>
<td>1923</td>
<td>302,385,000</td>
<td>74,339,000</td>
<td>94,580,000</td>
<td>19,947,000</td>
</tr>
<tr>
<td>1924</td>
<td>352,093,000</td>
<td>90,126,000</td>
<td>98,179,000</td>
<td>28,552,000</td>
</tr>
<tr>
<td>1925</td>
<td>440,023,000</td>
<td>116,235,000</td>
<td>108,886,000</td>
<td>38,692,000</td>
</tr>
<tr>
<td>1926</td>
<td>574,087,000</td>
<td>146,009,000</td>
<td>116,902,000</td>
<td>50,537,000</td>
</tr>
<tr>
<td>1927</td>
<td>761,403,000</td>
<td>161,261,000</td>
<td>120,665,000</td>
<td>69,574,000</td>
</tr>
<tr>
<td>1928</td>
<td>972,799,000</td>
<td>207,373,000</td>
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*Data in this table taken from Temporary National Economic Committee, Monograph 35, p. 8.

despite decrease for the others over the corresponding period, may be laid to the relative youth of the company; the number of outlets was increasing also.

The Atlantic and Pacific Company experienced sharp increases in sales even after the peak in number of outlets was reached. The number of stores remained relatively the
same from about 1927, while the volume of sales was yet to gain around thirty per cent. The explanation can take one of two courses. Either they attracted new customers or the old ones bought in greater quantity. In either event, their retail prices would play a great part. They had to be low enough to draw new customers and keep them away from competitors and offer an incentive for old customers to buy more. Further reductions in price were possible because of wider margins resulting from certain methods in their distribution system that lowered distributive costs. These methods are apart from the distributive functions of mass-purchasing and retailing through multiple outlets. They stand behind these functions, and consequently the savings they produce are not available to many competitors. Atlantic and Pacific has a greater diversification of activities than any other large-scale food concern.

Vertical integration is the nucleus of the benefits to be derived from the operation of giant concerns such as the five that have been mentioned. All of these systems operate their own warehouses for servicing their retail units with stocks of goods. The functions performed by these warehouses is essentially the same as that which the specialized wholesaler performs for the independent retailer. Only in cases where competition demands do corporate chain systems buy from specialized wholesalers.
But chain integration does not stop with warehouses. It reaches back into all phases of food processing, and in many cases spans the entire gulf between producer and consumer.

In 1936, Atlantic and Pacific was operating forty bakeries. Safeway had twenty-one bakeries in the same year. All of the four largest chains operated condensery plants in producing areas and canned milk for sale under their own brands. A subsidiary of Atlantic and Pacific, the Whitehouse Milk Company, is the third largest firm in the entire canned milk industry. Besides these, chains engaged in other processing operations such as coffee roasting, curing and packing meat, salmon canning, and the making of many other products -- mayonnaise, spices, beverages, etc.

In many cases where it is either unprofitable or inadvisable to operate production facilities of a given product, the chains have set up smaller warehouses for handling that particular product. Butter and cheese are good examples of products handled in this manner. These items are assembled from local manufacturers and shipped direct to the general warehouses.

There is a similar set-up for the handling of fresh fruits and vegetables. For a time these items were purchased

\[\text{Ibid., p. 11.}\]
through terminal wholesale markets, but the trend is to displace all middlemen so far as possible. The larger systems have established their own subsidiaries for handling these commodities, and in the main buy direct from growers and shippers. The Atlantic Commission Company, a subsidiary of Atlantic and Pacific, is a typical agency of this nature. The use of these subsidiary buying companies to accomplish unethical and unlawful ends is quite marked, and there has been an endless docket of prosecutions under the Robinson-Patman Act. Parent companies have been guilty of deducting brokerage fees from amounts paid to growers for products bought through subsidiary companies.

Very much the same difficulty is experienced by the Federal Trade Commission in obtaining convictions as the Power Commission had in attempting public utility regulation. Corporate food chains are financially able to conduct extended court proceedings, and their network of subsidiaries makes it almost impossible to put readily the finger of guilt on the offender. Early in 1940, the Third Circuit Court of Appeals (Philadelphia) unanimously affirmed the Federal Trade Commission's order which prohibited the Great Atlantic and Pacific Tea Company from accepting allowances and discounts in lieu of brokerage on its purchases of commodities in interstate commerce. In clarifying its opinion, the Court said:
The question presented for our consideration is simply whether or not the vendee may be compensated for services rendered by the vendee's agent acting as agent for the vendors. It is obvious that dual representation by agents opens a wide field for fraud and oppression.

The practice of paying brokerage, or sums in lieu of brokerage to buyers or their agents by sellers was found by Congress to be an unfair trade practice resulting in damage to commerce. Paragraph (c) prohibits such practice. We conclude that Congress has properly exercised its power to the end that the named abuse may be done away with.

It would have been very difficult to state the ruling any more clearly. Yet, less than a year later the Trade Commission ordered the Atlantic Commission Company, an Atlantic and Pacific subsidiary, remember, to cease and desist from making purchases for its own account at a so-called net price or any other price which reflects in whole or in part brokerage currently being paid by sellers to their brokers; from accepting from sellers any so-called quantity discounts and payments representing or reflecting brokerage being paid currently by sellers to their brokers; and from accepting from sellers in any manner or form whatever anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof upon purchases of commodities made for the respondent's own account.

There is little wonder as to why Representative Patman introduced his H. R. 1, a bill which would have taxed these highly integrated systems out of existence. His first bill,

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an attempt at regulation, was being woefully disregarded.

Kroger and Safeway also operate fresh fruit and vegetable companies. They are named Wesco Foods Company and the Tri-Way Produce Company, respectively. While no one of these chain subsidiaries handles a very great percentage of the national supply (the largest handles from three to 7.5 per cent, varying with the crop), their proximity to producing areas and authority to purchase huge quantities make them an ever-present factor in the flow of products to the consumer. Usually these companies maintain teletype connection with the principal markets of the nation as well as with the offices of the parent company. The nature of marketing perishable food is such that often by advancing or delaying their buying for just a matter of minutes they are able to save considerable sums.

This vertical integration is continuing toward the goal of complete independence of the corporate chain all the way from producer to consumer. This writer, in recent conversations with the representative of a large food sales company, was informed that one of the leading chains is either manufacturing or distributing under private label a competitive item for every product offered by the sales corporation. Yet, this same sales corporation continues to sell the chain on a direct basis, granting all the allowances and discounts of quantity purchase. If the competitive element
is genuine, the interests of the two groups seem to be incompatible. Certainly the chain would not encourage the sale of a foreign product when the same effort put behind their own brand would produce more profit.

As a measure of self-protection, manufacturers should cement relations with independent outlets in order to hedge against the day when chain systems turn to private brands altogether. Speaking of manufacturers, there is evidence that the small processors who sell more than twenty-five per cent of their output to a chain system are treading a precarious path. There is great likelihood they will be coerced into cutting profits lower and lower under threat of losing the chain business, and consequent ruin. A small manufacturer in Denton, Texas, revealed to this writer his avowed policy of not selling any one account more than twenty per cent of his entire output. He admitted the reluctance with which he refused large contracts that would have been quite profitable at the time, but he said he had seen too many manufacturers forced into bankruptcy to let his impulses overcome his long-term judgment. He remembered how they lost such contracts, and through neglect of regular customers in the meantime, had no constant sales to rely upon.

The influence and, often, the domination, wielded by chains over small producers is understandable in cases of
producers' depending on the chain for a substantial part of their volume. How such influence extends to producers who sell only a meager portion of their output to chains is indeed perplexing. It is interesting to read the testimony of producers who appeared before a subcommittee hearing to oppose a measure that, if passed, would impose a considerably heavier tax burden upon a few of the largest food chain systems. One small producer and shipper traveled all the way from the extreme southern part of Texas to Washington in order bitterly to denounce the bill as being ruinous to the growers whose products he purchased and shipped. Subsequent questioning by members of the subcommittee revealed that for the preceding eight or ten years chains had accounted for only ten per cent of his volume. How any competent business man, in the absence of extraneous influence, could promote the interests of ten per cent of his customers in direct conflict with the interests of ninety per cent of his customers is a mystery to this writer.

There is a note of irony in the struggle being made by the independent retailer to compete with the giant grocery chains. Several of the chain systems that engage in manufacturing sell their surplus to other wholesale jobbers. This merchandise eventually comes to rest on the shelves of independent grocers, under a different brand, of course,

from that sold by the retail units of the manufacturing company. The result is that the independent actually helps to strengthen an avenue of distribution he would like very much to weaken. The same is true of the independent who purchases from warehouses maintained by chain systems, although there are few purchases of this kind because it is more obvious that he is acting against his best interests.

It might be well to distinguish between the several types of chain stores' manufacturing companies. First, there are those that are completely integrated and sell in their own stores only what their factories produce. This type is rarely found in the field of food distribution, although the trend is in that direction. Some few completely integrated specialty food chains do exist, however. Shoe manufacturers often use this type of organization successfully. Second, there are those that are engaged in manufacturing primarily, and are only secondarily interested in retailing. This type disposes of its product largely through independent channels. Third, there are those which are primarily retailing organizations and engage in manufacturing to a limited extent. Into the last group fall the two chain systems operating units in Denton, Texas.

Since none of the leading food chains are yet manufacturing or growing all of the merchandise they sell, it is necessary for them to purchase from other manufacturing and
producing organizations. In the case of the Atlantic and Pacific Company, purchases of nationally known and advertised goods are made by the central purchasing office in New York City. Under the direction of the vice president in charge of the central purchasing, buying offices are also maintained for direct buying of merchandise produced or packed in the following market centers: Minneapolis, Rochester, Seattle, San Francisco, New Orleans, Milwaukee, Baltimore, New York, Chicago, and Boston.\textsuperscript{14} For obtaining its supply of produce, Atlantic and Pacific operates the Atlantic Commission Company, as has been mentioned. Such wide diffusion of purchasing points permits the company to keep constantly informed of all changes in the major markets and enables it to play markets in one state against those in another. Purchases can then be made where the best price is obtainable. The saving represents the advantage the retail chain store holds over the independent across the street.

Contracting for produce in advance is a policy of the more powerful chain systems. Agreements usually provide for the appointment of the chains' purchasing subsidiaries as exclusive agents to handle the sale and distribution for all the fruits and vegetables controlled by a shipper for

\textsuperscript{14}\textit{Federal Trade Commission, Final Report on the Chain Store Investigation, Senate Document No. 4, p. 27.}
an entire season. Co-operative marketing associations are often parties to such agreements. Here again is a bit of irony. Individual producers organize themselves into co-operative associations in order to promote the sale of their products at better prices. Such associations amount to very little, however, when bargaining with corporate giants of distribution such as Tri-Way Produce Company, or Safeway, as it really is. The Temporary National Economic Committee's investigation of concentration in agriculture emphasizes an increasing concentration of control of agriculture at local shipping points. Such concentration entails many abuses. Common complaints made by farmers against these purchasers at local shipping points are: misrepresentation of grades in buying, misrepresentation of market conditions and prices, and collusion to keep prices down.15

One of the first practices to look for in attempting to determine the extent of monopoly within an industry is an effort to control the source of supply. Several large food chains, who engage in manufacturing and processing activities, maintain production credit programs in their relations with individual growers. Through such programs they furnish the individual with the supplies he needs for producing a crop, and in return obtain a crop lien or a

15Temporary National Economic Committee, Agriculture and the National Economy, Monograph No. 23, p. 19.
share of the yield. About ninety-five per cent of the farmers who secure their supplies in such manner market their products exclusively through the agency from which they obtained their supplies. Around sixty-three per cent of this number report that their contracts provide for this practice. Where there are no specific agreements to this effect, there is evidently a general understanding of a moral obligation regarding patronage. Under such conditions the farmer is decidedly cramped in his marketing. When a majority of the output from a given locality is restricted in market freedom, it results in a disadvantage to independent farmers. Outside buyers are discouraged from entering the local market area because of the smaller volumes of business remaining open to them. As purchasing subsidiaries of huge corporate chains obtain more and more production areas and place them under their control, the threat of monopoly grows greater and greater.

It may be said that as a general rule, the bigger the chain the more distributive functions it tends to integrate. Perhaps one of the main reasons larger chains have added to the number of their retail outlets in recent years is the desire to undertake certain processing and distributive functions that would have been unprofitable within the smaller organization.

No doubt, such a desire motivated sweeping acquisitions
of other chains by Safeway and others. This firm arose to early importance through acquisition in 1928 of 465 stores in southern California. Later in 1928, Safeway acquired the Arizona Grocery Company, the Standard Grocery Company, and the Sanitary Grocery Company. These acquisitions involved 548 stores in Arizona, Texas, Washington, D. C., Virginia, and Maryland. Still later in the same year, Safeway acquired the assets of the Piggly Wiggly Pacific Company and the Bird Grocery Company with 315 stores in California, Hawaii, Arkansas, Kansas, Missouri, and Texas. To these were added the Sun Grocery Company and Piggly Wiggly Western States Company in 1929, this time involving 262 stores in Oklahoma, California, and Utah.

Other such far-reaching acquisitions by Safeway have taken place at intervals since. The latest is the reported purchase of the Totem Stores, Inc., a grocery chain in the Pacific northwest.  

In summary, it should be remembered that chains expand in order that they may integrate their activities more completely. This expansion has taken place through purchase, merger, and consolidation, and has reached a degree which the Federal Trade Commission describes as having contributed in major part toward the elimination of competition.  

\[16\] Interstate Merchant, LIV (May 2, 1942), 2.
this same general connection, the Temporary National Eco-
nomic Committee states:

So great a proportion of all national savings and all national wealth have fallen under the con-
trol of a few organized enterprises that the oppor-
tunity of those individuals who will constitute the next generation will be completely foreclosed unless, by common consent of leadership in busi-
ness and government, we undertake to reverse the trends responsible for the present crises.18

The Commission has consistently recommended closer regu-
lation of such mergers by governmental agencies, but as has been previously stated, the solution is not in the regula-
tion of practices but in amending the philosophy underlying the practice.

Meanwhile, the best course for the independent grocer is within the realm of organized self effort. He must do his utmost to meet the chain on common ground, and this can best be done by adopting the better features of chain dis-
tribution and rejecting those that are disadvantageous.

What, then, are the best features of chain distribution? There has been some question as to whether purported chain store advantages have a true economic basis or merely a propaganda one. Probably they have both. Consideration of these claims of contribution to the progress of food dis-
tribution is pertinent to this study, and conclusions as to the worth of these claims should form the foundation for

18 Ibid.
recommendation to the independent grocers of Denton, Texas. The economic advantages of chain operation are discussed at greater length in the following chapter.
CHAPTER III

ECONOMIC ADVANTAGES OF THE MULTIPLE-UNIT SYSTEM OF OPERATIONS

Economics may be divided into the general classes of production, distribution, and consumption. Production, in the economic meaning, consists in the creation of utilities, or things which satisfy human wants. Chief among these utilities are form, place, time, and possession. Form utilities are actual goods and services such as coffee, bread, radios, and dental service. Place utilities are created when these goods are taken from the place of production to the place where they are consumed. Time utilities are created when these goods are kept until they are wanted. Possession utilities are created by getting these goods into the hands of people who want them. As the word "creation" implies, the creation of these utilities is truly a part of production, but for all practical purposes, such creation is commonly termed distribution.

An economic advantage of a given system of distribution, then, is the degree to which that system can produce the various utilities more cheaply than other systems.
There is still a great need for accurate knowledge regarding the over-all cost of distribution of goods. Progress in the accumulation of reliable information of the subject has been deplorably slow. Until very recently, there have been but few studies of complete distribution costs except by individual manufacturers in an effort to determine the cost of each factor in their own methods. It was not until 1924 that the Federal Government recognized the need for further knowledge of distribution. That year marked the establishment of the Domestic Commerce Division in the Department of Commerce. The first Census of Distribution was taken in 1929, and others have been taken at intervals since then. These studies stimulated greater research by the schools of business of many universities and by many trade associations in the field of distribution.

Analyses of marketing efficiency are commonly made in terms of monetary costs. Upon this basis, distribution costs demand a much greater portion of the consumers' dollar than was necessary twenty-five years ago. On the surface, it would appear that marketing efficiency has been lowered over the period, but the change is due in greater part to a concentration on physical production costs by business analysts resulting in lowered production costs and consequently higher ratio of distribution cost.

We now seem to be at the beginning of a period in which the problem of distribution will receive the same degree
of attention accorded production since the Industrial Revolution. Consumers are becoming more conscious of marketing methods, and have launched a general consumer movement aimed at displacing some methods and reducing the cost of others. One writer maintains that the way out for the consumer is through organizing consumers into cooperatives to carry on retail distribution in their own interests, not for profits to capital, but solely for use.¹

Most consumer organizations hold the elimination of profits to capital as their highest purpose, but profits constitute only a very small part of distribution costs, especially in the food industry. The percentage of profit is by no means the chief determinant of efficiency in distribution. Efficiency usually is thought of as the quantity of productive resources necessary for the performance of a given operation. Normally, these quantities are measured in terms of monetary units.

For a true evaluation of distributive efficiency, it is necessary to make a distinction between marketing expenditures incurred for the purpose of satisfying demand and those incurred for the purpose of influencing demand in favor of a particular seller. Many expenditures, though not all of them, made for advertising and competitive selling serve no actual use to the consumer, regardless of how

¹Edward A. Filene, Next Steps Forward in Retailing, p. 270.
profitable they may be to the one who makes them. It may be said that that system is most efficient which uses the least amount of labor and capital in the performance of its distributive operations which serve a socially necessary and useful purpose.

There are certain qualifications that must accompany any definition of distributive efficiency in the field of food. First, there is a definite relationship between the amount of labor used and the rate of compensation paid to such labor. Many businesses survive only because their proprietors and employees are willing to work long hours or at low rates of pay. Certainly there is no evidence of efficiency here. The essence of the food industry is the distribution of farm products. Second, then, is the qualification that demands there be no undue benefit given the consumer at the expense of the farmer.

It is admitted that there is a certain amount of inefficiency inherent under any system of competition. There are a great many duplications of services in marketing that arise out of competition itself. Completely to eliminate duplication would be the creation of monopoly, and would necessitate careful regulation to prevent the use of efficiency growing out of such a system for the benefit of others than consumers.

Large-scale food corporations have introduced methods
of mass distribution that are heralded by some as the greatest development of the present century from the standpoint of marketing efficiency. These methods have changed the structure and mechanics of food distribution. Such methods, therefore, must unquestionably give advantage to those who use them. It is the purpose of this chapter to attempt a measurement of this advantage.

The functions of wholesaling and retailing are the largest elements in the spread between producer and consumer. Of these two, retailing is by far the greater, and for this reason any innovations in that function are likely to be important in the reduction of food costs.

Most comprehensive studies in the comparison of prices in chain and independent food stores conclude that "on the average, chain stores can and do sell at prices which are somewhat lower than the prices charged by independent retailers or even co-operative chains."² It should not be concluded, however, that large chains undersell independents in every instance, or that they undersell smaller chains. While most studies agree that chains undersell independents, there is a lack of agreement as to the percentage of difference. Discrepancies arise through the use of different measures in expressing the average price of each commodity, and then the average price of all items

²Federal Trade Commission, op. cit., p. 28.
taken together. There are several possible measures of central tendency. The arithmetic mean, the median, the mode, the geometric mean, and the harmonic mean may be used. The geometric mean was the measure employed in the study made by the Federal Trade Commission, and in all fairness, it may be said that this study was the most scientific approach to the problem of differences in chain and independent food store prices. It was found that the difference between chain and independent selling prices is appreciably less on merchandise delivered directly by the manufacturer to retail store units. The general difference on goods handled through wholesale or chain store warehouses was approximately 6.35 per cent in favor of the chains. Thus it may be definitely stated that on comparable standard brand merchandise chain store prices are substantially lower than those of independent retailers.

The difference in prices of chains and independents is followed by a like difference in operation costs. United States Census figures place the chain store expense ratio at sixteen per cent of net sales as against twenty-three per cent of net sales for all other types of stores.3 Here is evidence that lower chain store prices are, in part at least, the result of lower operating costs. What, then,

are some of the factors that make these lower operating costs possible?

One of the most obvious advantages of chain retailing is the distribution of risk. Generally speaking, the larger the chain, the greater the advantage. As a chain grows, the geographical area over which it operates becomes greater. If local conditions are bad in one area, the profits from units operated in more prosperous areas will help to offset the losses sustained in the first locality. The independent merchant must depend on his own community for success, and local conditions determine the degree of that success in very large measure.

Multiple-unit retailing is a system of decreasing costs. As new outlets are established, costs may be spread over a larger volume of business. Of course, the time will come when such reduction of costs per unit will diminish, but few retail chains have reached that stage. The Atlantic and Pacific Company, however, closed a number of stores a year or so ago, and their net profits increased considerably for the fiscal period. No doubt the closings were only one factor in the increase, but it helps to bear out the diminishing returns theory. Graduated chain store taxes seem to be based on the assumption that chain store costs decrease with each additional unit, and they have repeatedly withstood the scrutiny of the courts.
Somewhat akin to the advantage of risk distribution is the advantage of ability to vary prices. The chain is able to average its profit results obtained from the different stores. Chains are in a position to vary prices in different cities and sections of the country. Studies have shown that one company may have widely differing prices among its stores in the same city. Chain store officials have indicated that it is a quite usual practice among them to cut prices locally not only to meet, but to go below, the prices of their competitors in that locality, while maintaining prices in their other stores. A certain chain organization in the Cincinnati territory had an annual loss of considerably more than its total investment in that territory while it was driving the independents out of business. From 1930 to 1933 the same organization had an average investment of $813,250 in Los Angeles, California, and an actual loss during those years of $862,918. In the years 1926 and 1927 this organization's loss in Dallas, Texas, was $50,000 more than its capital investment; whereas in other cities in this country it showed that at the same time, where it had got control, as in the Bronx, in New York, it made as much as 150 per cent on the capital invested; and in other cities in this country, where it had complete control and set the prices, it made enormous profits. 4

4Beckman and Nolen, op. cit., p. 60.
Buying advantage has probably been the greatest single factor in the development of chain distribution. Not only do chains secure cheaper prices on the merchandise they buy for resale, but on their supplies, fixtures, advertising, and equipment as well. Through centralized management, the chain is able to concentrate its purchases with one source. As contrasted to the hand-to-mouth buying limitations of the average independent, the chain often buys several months' or a year's supply of certain items at a time. Under normal conditions, the quantity of goods purchased vitally affects the price paid. Recent legislation has attempted to restrict quantity concessions to actual savings brought about by the particular quantity involved, but the effectiveness of the measure is yet to be fully demonstrated. Actual savings are supposedly gained through so-called "services" rendered by the purchasing organization, and although allowances for such "services" are offered to all alike, the requirements are of a nature that demands strict conformity from all retail units. Few independent groups have sufficient authority over their members to comply with the terms of allowance. One only has to look at the annual purchases of the Atlantic and Pacific Company, over $800,000,000,5 to realize the independent's hopelessness of receiving like treatment at the hands of the producer.

The advantage of skilled buying is also in favor of the corporate chain. They retain expert buyers, specialized in a very limited field, enabling them to grasp any favorable opportunity the market may present.

Great financial resources and superior credit standing make the corporate chain one of the first sources to which manufacturers in need of ready money can look for relief. Most chains stand ready at all times to take advantage of special discounts offered in exchange for lightening a manufacturer's financial burden.

Secret concessions have been prohibited by law. Before enactment of the measure, glaring examples of this practice were brought out by Federal Trade Commission investigations. In 1934, the Atlantic and Pacific Company was reported to have received such allowances in the amount of $8,000,000, or over fifty per cent of the net profits of the company for that year. Just how effective the anti-discrimination act will prove to be is open to debate. One writer expresses his views with the statement that "under the act the chains are to be deprived of some of their unearned allowances but only a 'Pollyanna' would suggest that they are to be stripped of them all." 

The ability to operate at a lower cost is another

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6Ibid., p. 4.

7Temporary National Economic Committee, Large-scale Organization in the Food Industries, Monograph 35, p. 63.
advantage of chains over independents. Studies of comparative operating expenses and gross margins for the two systems of retailing are not altogether satisfactory, but the advantage is clearly in favor of the chains. There are numerous factors that enter into the greater efficiency of chain operation. One of the most important ones is their more efficient use of labor. Census figures show sales per employee of approximately $19,000 as compared to $12,000 per employee for independents over the same period. Wage costs, expressed as a percentage of retail sales, were 8.14 per cent for chains as against 9.12 per cent for independents.\(^8\) Obviously chain employees are used to greater advantage than independent store employees, but the difference may not be as great as some studies report. Almost all comparisons of full-time employee activities for chain and independent retailing include the store managers of chain units, but do not include the proprietors of independent enterprises. This fact tends to temper any glaring variation between figures for the two systems. Since wage costs are determined by both the amount of labor and the wage rate, it is possible that a portion of the chains' lower wage cost might be attributable to lower wage rates. There is a contradiction in data surrounding the comparative wage rates of independent and chain food retailers. This

\(^8\)Ibid.
writer chose to use the United States Census of Business figures because of their later date. Such figures show the average wage per employee to be $957 for chains as against $762 for independents.\(^9\) It should be remembered, however, that these results apply only to combination food stores, or those selling both groceries and meats. Stores of this type, particularly chain, require more expert management than smaller units, and the tabulation included the salaries of chain store managers but not those of independent proprietors. This would tend to place independent wage rates closer to chain rates, especially so in the light of the fact that not more than half of the independent grocery stores in the nation have a volume of business sufficient to provide the proprietors with a wage approximating that of the average chain store manager.

In virtually all surveys, the larger, more progressive independent retailer is handicapped in so far as he is classed along with about 305,000 other independents, many of whom do not truly warrant the classification of independent grocer. More than 130,000 of these independents have sales of less than $5,000 per year.\(^10\) Most of these stores are operated wholly by one family and often cannot alone support a family, but only assist through providing

\(^9\) United States Census of Business, 1935, VI, 156.

\(^10\) Ibid.
their food at wholesale. Many other stores are operated by small enterprisers who have been crowded out of other fields and have turned to grocery retailing rather than work for wages. Such conditions have prevailed to the point where food retailing is offering only a little more than a subsistence level of living for many engaged in it, and the situation is likely to continue so long as men are unable to find employment in other fields. The present war emergency is doing much to alleviate this condition, but at best it is only temporary.

Chain distribution has exploded the traditional belief in this country that the one who owns an enterprise knows better than any one else how to run it. A few still hold to the opinion that independent stores are better managed because the managers of chain units lack the incentive of ownership. They are slow to accept the fact that specialization and division of labor may be applied to the functions of management, although they are convinced that its application to labor has been of vast importance to our present system of mass production.

Successful management in retailing is made up of skill in buying, advertising, and merchandising. These skills are supplemented by a keen awareness of all factors that make up the various costs. Chain stores employ buyers with many years of experience and who are specialists in their
field. They are thoroughly schooled as to the needs and desires of their company and its customers. These buyers have command of the latest and most scientific data on any line of merchandise based upon the previous year's experience. They can anticipate demand; they know what they will need and when they will need it; and are thus enabled to buy in off seasons when exceptionally good prices are available.

Skills in merchandising and advertising may be handed down from experts in these elements to the various chain retail units in the form of standardized practices. Window displays, advertising copy, store arrangement, and procedure, and many other details may be designed by specialists. Employees are then compelled to execute them. Rigid methods of record keeping facilitate the early detection of any loss of efficiency.

The accounting methods of many food chains have been subjected to a great deal of criticism. Their inventory systems in particular have been a point of attack. In one case they are accused as follows:

... I make this point for the purpose of showing that the system of these national corporate chains is such that it compels honest men to be dishonest. In other words, the manager of the branch is billed with a certain quantity of merchandise at the retail price. He must account for that merchandise, either by money in the cash drawer or by the commodity on the shelves. He therefore must be very careful about his weight. ... I am not accusing
the officials of this concern of dishonesty. I presume they are honest, outstanding, honorable men. I do say, however, that they have a system that is so conducted that honest men are encouraged to be dishonest....

Whether strict control methods of inventory encourage dishonesty in chain employees or not, it must be admitted that they definitely reduce loss through negligence. While surveys have shown that consumers are slightly more apt to receive short weight in their purchases of weighed goods at chain stores than at independent, there is no indication that chains are grossly more dishonest than independents. Consumers are more alert to attempts at unethical and dishonest practices than they were a few years ago, and this fact is doing a great deal to hold in check most efforts to defraud them. Many chains employ methods that are subtly misleading, but these generally are regarded as skillful advertising or merchandising rather than dishonesty.

The integration of the functions of wholesaling with those of retailing has been one of the most effective cost-reducing devices employed by multiple-unit food corporations. The number of bargaining transactions and ownership transfers necessary to move goods from producer to consumer is considerably smaller in an integrated organization than through the regular channels. Few straight-line wholesalers can secure a sufficient portion of any one store's business to

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enable them to match the chain economies in getting merchandise from warehouse to retail store. A rather large part of the total cost of distributing food through regular channels is consumed in brokers' fees, wholesalers' commissions, salesmen's salaries, and advertising expenditures. All of these activities are the result of sellers' and manufacturers' efforts to find retail outlets for their goods. The purpose served by such transfers of ownership is the creation of time and place utility, or in regulating the flow of supply in proportion to the ultimate demand. These utilities must be obtained regardless of the type of distributive system; consequently, the functions of brokers and wholesalers are not eliminated in the integrated systems of chain corporations. They are merely displaced by like units of their own. This is the key to most of the advantage of chains over the usual retailer-wholesaler combination. Warehouses of chain systems do not have to sell to the retail units. Goods are requisitioned as they are needed. This constitutes a tremendous saving over regular methods wherein the independent retailer is visited each day by at least six or eight salesmen from competing wholesale houses, each trying to sell him merchandise which he may or may not need at the time. Competition forces the salesman to use every sales appeal at his command toward securing orders from the retailer. Such relations involve not only the cost of the
salesman's time and effort, but also estimates have indicated that one third of the retailer's time is consumed in interviews with sales representatives. When the retailer is not in need of the product offered, it may well be considered that this time is wasted. This wasted time can only be added to the operating costs of the retailer and results in either higher prices to the consumer or a lower percentage of profit to the independent dealer. Wastes are even more exaggerated when the quantity of purchases is considered. With almost half of the independent retail grocery stores doing volumes of less than $5,000 annually, it is inevitable that the quantity of goods purchased by any one retailer will often be insufficient to cover the cost of the salesman's call. All of these wastes are reflected in the higher operating costs for the independent retailer-wholesaler system as compared with the integrated chain system of distribution.

There is waste in the delivery systems of independent wholesalers and retailers. A great amount of cross hauling is inevitable in the movements of goods just as there is an overlapping of effort in the sale of them. Delivery costs as a rule mount in direct proportion to the distance covered. Most regular-line wholesalers deliver over a radius of at least fifty and often one hundred miles or more. The presence of waste in such practices is emphasized by recent
government regulations to curb delivery duplications and "dead end" hauls, or those from which equipment must return empty. Chain store systems are able to avoid many of these wastes through careful planning based upon accurately anticipated needs and interplay between several warehouse units of the same system.

While chain systems affect substantial savings in operating expenses of their warehouses through elimination of unessential operations in delivery, they affect still greater savings in their retail units through the elimination of delivery altogether. Few independent retailers have been able completely to do away with delivery operations, although some have devised plans whereby the consumer shares in the cost of delivery.

Grocery chains almost universally operate their retail units on a strictly cash basis. Savings enjoyed through this means are not necessarily limited to chain systems, but the impersonal nature of their relations with consumers contributes to a more smooth functioning of the policy than with most independents. The chain store manager is only an employee and most consumers realize that he must follow policies laid down by his superiors, consequently they rarely ever so much as ask that credit be extended them. With the independent, however, the relationship between proprietor and customer is usually more personal. She knows
that the policies he attempts to follow are of his own making, and the experience of the writer is that she is less hesitant to ask for extension of credit or other special services, and that she is more likely to take offense if such requests are not granted.

The use of private brands provides the grocery chain with still another advantage over independent stores. The employees of chain units are in direct contact with the consumer and are able to encourage the sale of the company's own items. This verbal advertising costs the chain nothing additional and is probably more effective than expenditures of large sums for regular advertising services. The saving is represented in lower cost prices for the private brand commodity than for nationally advertised brands of comparable quality which of necessity must make up the bulk of the independent's stock. The Federal Trade Commission found the prices of groceries sold under the private labels of the chains to be more economical -- about twelve per cent lower -- than those of standard brands sold in the same store.\textsuperscript{12} It was also established by the Commission's comparison that the mark-up and profit made by the food chains on their own brands were as great as those made on the other brands which they handled.

\footnotesize{\textsuperscript{12}Temporary National Economic Committee, \textit{Large-scale Organization in the Food Industries}, Monograph 35, p. 72.}
Better locations may be considered a slight advantage in favor of large corporate food chains. These systems maintain separate real-estate departments to select locations and to handle leasing and rentals. In this connection, it might be well to note that very few corporate food chains own the buildings in which they operate stores. They hold to the theory that their capital will show a greater return from investments in salable merchandise rather than in real estate. As to location, however, after analyses have been made and a definite location decided upon, the chain usually has a good estimate of the volume of business it may expect.

Rapid turnover of merchandise stock is an important factor in chain retailing. In fact, the whole policy of low prices practiced by chains is built upon the idea of quick turnover. They seek a volume of profits. Profits may be attained with low prices and large volume of sales or with high prices and fewer sales. Chains have developed into the giants they are today largely because their managements saw the tremendous opportunity to multiply small profits by speeding up the cycle of invested capital. Fast turnover demands that management be constantly on the alert for new ways of increasing sales on popular items, and exercise an equal vigilance toward eliminating slow-moving ones. Obviously, expert chain employees who give all their time to
the study of such problems are in a better position to perform these demands than are average independent enterprisers. As might be expected, then, stock turnover of chain stores is usually at a higher rate than for other types of outlets. There seems to be a definite relation between the size of a business and the rate of turnover. Each as an influence on the other, of course, but in general the larger the store the greater the number of times its stock is turned over during the year. Since, in many cases, chain stores are more than twenty times larger than the average independent, the advantage may be clearly seen. In 1935, surveys covering combination food stores (groceries and meats) showed chains to have an average annual turnover of 19.4 as compared with an average of 13.5 for all other types of stores.13

The advantage of prestige which the corporate food chain holds over the average independent is worthy of brief mention. Standardization of building design, usually plain and spacious, makes for their immediate recognition by the public. The uniformity with which they are located throughout a city makes them accessible to a consumer regardless of where he may be at any given time. Almost every small town of one thousand population or more has one or possibly more corporate chain food stores. The frequency with which one

13 Stewart and Dewhurst, op. cit., p. 155.
sees or hears the name of the leading chain in his vicinity lends a certain importance and prestige to that chain. All of these are elements which the independent does not have working for him.

Are all these advantages naturally forbidden to the independent? Are they all strictly inherent in a chain system? The food chains themselves maintain that they are not. It is their claim that any advantage which chain stores may have over individual retailers is only that which inheres in sales volume and not in number of stores. They admit that chains have some specialized operating methods, but that there are few which are not open to adoption by independent stores.14

No independent grocer can continue to operate at a profit merely by resting on the reputation he has made in the past. His loss of business to the chain has convinced him that he must imitate the chain as nearly as he can in order to retain the business he now has, and perhaps regain some he previously has lost. What chain methods should he attempt to adopt? Must he revise his present structure in order to adopt them?

14 Nichols, op. cit., p. 97.
CHAPTER IV

VOLUNTARY AND CO-OPERATIVE GROUP ACTIVITY

BY INDEPENDENT OPERATORS

There was no mystery or magic in the rise of the corporate food chain. No fairy waved her wand and gave the chain store exclusive rights over merchandising progress and consumer service.

Tradition has been one of the chief factors in the failure of most independents to keep pace with chain store advances. Not that they have settled into a false sense of security, for few merchants actually believe that they are doing a completely satisfactory job of merchandising; but they have been slow in recognizing the changes in American retailing.

The average independent retailer tends to think largely in terms of his own immediate experience, and that experience consists mainly of operating a service grocery built around the idea that the more service one gives the customers, the more customers one will have. He extended long-term credit, he delivered so much as a loaf of bread, he went to no end of trouble to please his customers. When one of the corporate chains came to his community and opened a store
around the corner, he was puzzled to see many of his customers turn to the new store where they had to pay cash, assemble their own orders, and carry their own purchases.

The spectacular growth of the chain system has clearly demonstrated the consumer's willingness to forego the customary services if she believes she can purchase her food more cheaply. Quite a number of the more progressive independent merchants sensed this fact soon after the chain system began making momentous strides and set about to adjust their businesses accordingly. They remodeled and modernized their stores, in some cases added new and costly fixtures, went on an intended cash basis and set out on the field of competition to meet the foe and beat him at his own game. Price wars raged furiously over an extended period. Many of the independents who engaged in these struggles failed to survive. They learned the futility of an individual's attempting to cope with a huge corporation. Some were gripped with defeatist attitudes. Others came back with a new determination, and it was these merchants who provided the initiative for organizing a system of independent co-operative trade set-ups that closely parallel the corporate chain.

Collective action by independent food retailers has taken several forms. More important among them are the buying club, the voluntary chain, and the retailer co-operative. All forms have in common the maintenance of the
retailer's individual identity, although centralized control is more prominent in some than in others.

The buying club is a device to pool the orders of independent retailers and take advantage of quantity prices offered from time to time by certain manufacturers. Often the organization of such clubs is more formal and pools orders for its members more or less regularly. As the organization grows in volume of merchandise handled, it may extend the sources from which it buys to wholesalers, farmers' co-operative associations, and brokers as well as manufacturers. All the buying may be done by one member or it may be done in rotation by all the members. To avoid the possibility of undue hardship on any one member, most clubs require the members to make cash deposits when the orders are placed. In the main, the buying club attempts to secure wholesale prices without the expense of operating a wholesale house, but in many cases the clubs develop to such an extent that part-time paid secretaries must be employed.

These buying organizations come and go. Retailers join them for the express purpose of getting lower prices, and all too often one member turns out to be a chiseler who chisels at the expense of his own organization whenever he gets a chance. As a class, group buying organizations are dropping from the picture of collective activity. Some of
them are being taken over by wholesalers as a center for a voluntary chain. Others grow large enough to raise the capital and operate their own wholesale houses, although most of them never get beyond the first stage of collective buying. In 1936 the known number of buying groups was about 130, with a retailer membership of 5,648.¹

Buying clubs gained sufficient headway some years ago to create alarm among wholesale grocers. Wholesalers were smarting from loss of the business that was now being handled through chain store warehouses, and the prospect of losing still more volume through retailers' group buying organizations was truly disconcerting. A number of the more progressive wholesalers began attempts to stabilize their volume through organizing their customers to sell together under a formation similar to that of the chains.

Along about 1930 the American Institute of Food Distribution coined the term, "voluntary chain," as a designation for such wholesaler organized groups. Since that time the term has been commonly, though erroneously, used to identify all types of collective action among retailers. The food institute defined the term as:

A group of retailers (each of whom owns and operates his own store) associated with a wholesale grocer to carry on such joint merchandising activities, and to unite wholesale and retail

¹Gordon C. Corbaley, Group Selling by 100,000 Retailers, p. 97.
functions under such control as will enable the participating independents to meet more effectively the competition of centrally owned chain systems.\textsuperscript{2}

It should be remembered that the real voluntary chains were organized by wholesalers for selling. The wholesaler was primarily concerned that his retail customers become more effective in selling because his own volume depended upon the selling by these retailers in competition with the corporate chains. Those wholesale merchants who have not been active in organizing their retailers are not necessarily indifferent to the threat of chain system distribution. Wholesale grocers' associations have vigorously supported legislation designed to regulate or dissolve corporate chains.

Possibly the chief purpose of a wholesale grocer in forming a voluntary chain was to hold and increase his volume generally, but principally of brands owned and controlled by the wholesaler. Surveys made by the American Institute of Food Distribution revealed that of the 274 wholesaler sponsored groups who replied to questionnaires, only twenty had no private labels.\textsuperscript{3}

Voluntary chains have often grown beyond the local areas in which they began. Having found that collective action availed them of many quantity buying advantages, they

\textsuperscript{2} Fred Rost, \textit{Distribution Today}, p. 71.

\textsuperscript{3} Corbaley, \textit{op. cit.}, p. 121.
sought still further means of improving their position. The group action of the retailers already had obtained results; why, then, would not group action by wholesalers get greater results? Thinking of this nature terminated in the organization of centralized buying groups for wholesalers. Of these, Red and White, I. G. A. (Independent Grocers' Alliance), and Clover Farm have been the most outstanding. In 1936 Red and White had a membership of forty-six wholesaler groups. I. G. A. had sixty-one affiliated voluntaries, and Clover Farm had a membership of thirty-one. The three combined had a retailer membership of around 15,000, or about the same number of units as were operated by the Atlantic and Pacific Company.

These three master organizations have been actively engaged in the business of promoting the growth of voluntary groups. The financial power to do this has been derived from central buying. The cost of central organization, field work, and numerous types of meetings has been paid with money secured largely from brokerages collected, labels sold, and advertising allowances from manufacturers. In the main, these organizations have remained central buying offices for members without full power to buy. They are constantly bringing local groups into contact with each other with regard to activities on practical merchandising

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4 Ibid., p. 62.
matters, and this leadership is working toward more decisive control by central organizations over buying and selling which can only come through the consent and co-operation of the participating businesses.

Largely in the last decade, there has come into importance still another type of collective retailer activity. It is the retailer-owned co-operative. Like any other co-operative, it is a defense mechanism designed as a solution to a common problem; in this case, the corporate chain. The main objective of the retailer co-operative is to make and keep its retail members competitive with any and all operators in their trading area.5

The retailer co-operative seeks to obtain the lowest available price by combined buying. Such buying necessitates the operation of a warehouse unit. This unit is owned co-operatively by active retail grocery merchants. It is directed by a board of directors made up of stockholder-members elected by their fellow members. Usually it is managed by an employed wholesale merchandising expert who is responsible to the board.

Most successful retailer co-operatives have been operated upon the established principles of the Rochdale Pioneers who started the first successful co-operative. The greatest deviation from these principles is in the matter

5Lazo, Controlled Competition, p. 47.
of membership. Unlike a consumer co-operative, the retailer co-operative finds it necessary to limit membership. Only active retail merchants of recognized financial responsibility and ethical dealings are eligible for membership. The retailer co-operative does not provide "something for nothing." Its benefits can accrue only through business operations; consequently, those not engaged in food retailing, no matter how well-meaning, cannot create benefits because they do no business. This should not be taken to mean the co-operative spurns good will; on the contrary, it thrives on it, but those who create no benefits should have no voice in the active management of the company.

As nearly as possible, there is an equal ownership of the members in a retailer co-operative. This precludes the possibility of one member's gaining control or domination of the organization. A few groups have succeeded on other ownership plans, but usually they are outgrowths of buying clubs that were organized upon an unequal participation basis. As a long-term policy, however, the organization as a whole should always be greater than any of its members.

For the same reasons as those above, there is an equal voting power regardless of the amount of stock owned in the enterprise. This is an unalterable rule in any co-operative organization.

To insure that management shall continue in the hands
of active retail members, all stock is nontransferable. This prevents any outside person or organization from becoming voting members and possibly controlling elements.

The definite purpose of a retailer-owned co-operative warehouse is to make warehousing a service operation to the retail trade. As such, it is not concerned with making profits at wholesale, but only with getting a sufficient markup to cover necessary costs of operation plus certain reserves. Any profit above this amount is considered an overcharge to the members and, as such, is returned to them on the basis of the amount of business they have done.

In keeping with the policy of equal ownership and voting power, retailer co-operatives forbid voting by proxy. This prevents the stockholder’s meetings from becoming the farcical gatherings of the average corporation where a mere handful of stockholders dominate the meeting with voting proxies they have assembled previously.

The success of a retailer co-operative depends upon an equality of treatment of all members and it is toward this end that all the above policies were established.

The individual retail member of the retailer co-operative can do a great deal to augment the savings he enjoys through membership in the group; in fact, the co-operative’s greatest asset is the initiative and self-dependence of the retail distributors. First, he can improve the appearance
and efficiency of his own store. He should make every effort to facilitate an even flow of merchandise from the back door out through the front door, with a minimum of labor and costs. With the guidance of the co-operative, he can streamline store arrangement and displays so as to encourage the customers to do as much of their own work as possible. His operating expenses can then be reduced to a very low level. By simplifying and routinizing the work and sharply dividing it among the various employees, he can effect economies in labor costs. Proven economies resulting from revisions such as these vary between two and four per cent of gross sales.\(^6\) Even the lower figure represents quite a substantial saving in the operating expense of a retail food store. This saving coupled with that gained through affiliation with a co-operative warehouse would place the average independent in a position of very near equality with corporate chain competition.

Through the co-operative the retailer receives other advantages he would be unable to obtain alone. The use of collective advertising power enables the independent retailers to present their story to the consumer more effectively, through wider use of advertised statement of policy.

Members of retailer co-operatives have no particular quarrel with straight-line wholesalers who seek a legitimate profit on their operations, but have organized co-operatively purely as a defense mechanism against a status in which they could not compete with the chains. True, there are cases of independents' competing on apparently equal footing, but they rarely remain able to do so for long. Often the supposed equality is based upon inferior merchandise and clever deception.

What degree of saving can the independent retail member expect from his co-operative warehouse? One of the more important costs of wholesale grocery operations is delivery expense. The figures on this cost will vary in direct proportion to the distance covered by the delivery system. Surveys have shown them to mount as high as 2.5 per cent of sales, but usually such high costs result from delivery operations covering distances up to five hundred miles or more. Delivery costs for the size of operations with which this study is concerned average around 1.8 per cent of the total volume of sales. The national average for retailer-owned co-operatives in food warehousing is 0.86 per cent of sales. Through concentration of business with a given radius of membership, the retailer co-operative is able to save its members around one per cent of cost on his purchases.

Lazo, Controlled Competition, p. 49.
through a substantial reduction of the delivery costs alone.

Table 3 consists of the latest available figures of undisputed authenticity showing comparison of sales, costs, payroll, inventory, and number of units in the field of general-line groceries between conventional wholesale merchants, voluntary group wholesale units, and retailer co-operative warehouse units. It should be noted that the retailer co-operative has a lower operating percentage than does either of the other types of units. Rather surprising is the fact that the voluntary chain or wholesale sponsored group has the highest percentage of operating costs of all.

**TABLE 3**

SALES, OPERATING EXPENSE, NUMBER OF UNITS, PAYROLL, AND INVENTORIES AT THE END OF THE FISCAL YEAR 1939 FOR THREE PROMINENT TYPES OF GENERAL LINE WHOLESALE FOOD COMPANIES*

<table>
<thead>
<tr>
<th>Type of Wholesaler</th>
<th>Number of Units</th>
<th>Sales Add 000</th>
<th>Operating Expense</th>
<th>Payroll Add 000</th>
<th>Inventory Add 000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Amount Add 000</td>
<td>Per Cent of Sales</td>
<td></td>
</tr>
<tr>
<td>Regular line...</td>
<td>2,781</td>
<td>$1,309,146</td>
<td>$125,768</td>
<td>9.6</td>
<td>$66,851</td>
</tr>
<tr>
<td>Voluntary group...</td>
<td>638</td>
<td>658,253</td>
<td>69,582</td>
<td>10.6</td>
<td>39,501</td>
</tr>
<tr>
<td>Retailer co-operative...</td>
<td>136</td>
<td>154,651</td>
<td>8,118</td>
<td>5.2</td>
<td>4,808</td>
</tr>
</tbody>
</table>

*Data taken from the Sixteenth Census of the United States, 1940, Census of Business, Wholesale Trade, pp. 6, 9, 15.
This may be explained in part by the greater number of promotional activities in which it engages. Several voluntary groups have adopted standardized store fronts and merchandise arrangement. Supervision of these activities adds materially to the labor costs of the sponsoring wholesale unit.

The United States Census figures clearly show that retailer co-operatives operate their warehouses at a reduction of from 4.4 to 5.4 per cent of sales as compared with other wholesale organizations. This has been done largely through rigid credit control, concentration of delivery radius, virtual elimination of selling expenses, large-scale purchasing, and smaller inventories and consequent faster turnover.

A saving of approximately five per cent to the retailer on the costs of goods he buys through the co-operative, added to a saving of some three per cent on his own operating expense, through co-ordinated advertising and merchandising practices, virtually equals the advantage in selling prices which surveys show the corporate chain enjoys over the independent. The independent retailer than becomes a much more equal competitor of the giant food corporations.

An organization that effects such savings should be of interest to every independent food retailer in Denton. In the following chapter the writer will attempt to evaluate the possibilities of successfully organizing and operating such a retailer co-operative among the independent retailers of Denton.
CHAPTER V

SUGGESTED CO-OPERATIVE ACTION FOR DENTON INDEPENDENT RETAILERS

The United States Census of 1940 listed the population of Denton, Texas, at 11,192. This figure was exclusive of a student population of some 5,000 enrolled in two state colleges. The provision of food and housing for these students is largely assumed by the colleges themselves. Forty-eight retail food stores serve the remaining population. Of this number, forty-four were classed in the 1940 census as combination food stores, or those which sell both groceries and meats.

For this study the writer has chosen to identify these outlets as dormant, secondary, primary, key, super-key, and chain. The dormant group are those which stock food items as a side-line, chiefly for the convenience of their customers in other merchandise. Small filling stations, ice docks, roadside stands, and others which handle bread and milk and perhaps a few staple canned goods fall under this class. Secondary stores are those which are not looked upon by the housewife as a regular source of supply for her general food needs. This group usually stocks a fairly
complete line of staples, but rarely has a selection of specialty items or perishable foods. The primary stores are those which the housewife does look upon as a regular source of supply and where she may expect to find products to fill all her normal food needs. The key group is made up of the best and most worthwhile primary stores. Such stores are usually direct buyers, that is, they have sufficient volume to enable them to purchase some items direct from the manufacturer. Super-key stores are those that have been described previously in this study as supermarkets. This type of store offers almost unlimited selection to the customer, and does a tremendous volume of business. The chain store is one of a group of retail stores essentially the same type, centrally owned, and with a marked degree of uniformity of operation.¹

Of the forty-eight retail food outlets in Denton, five may be considered dormant; fifteen as secondary; twenty as primary; six as key; and the two chains as super-keys.² In 1939, these forty-eight stores had a volume of sales of over a million dollars.

Does the above picture suggest any need for co-operative

¹Daniel Bloomfield, Chain Stores and Legislation, p. 1.


action by the independent merchants? Let us examine the matter more closely. The Great Atlantic and Pacific Tea Company and Safeway Stores, Inc., each operates a retail unit. Atlantic and Pacific began operations in March, 1926. Safeway did not establish a unit until August, 1931. About mid 1941, both chains moved to new and much larger quarters. It might be interesting to note that each moved to a new building of its own specifications. Still more interesting is the fact that both buildings are owned by the same firm, Johnson and Little, Dallas, and that the same construction firm, Cowden Brothers, Dallas, was employed in both cases. Whatever degree of competition between the two chains in operating retail units, there was evidently very little in their selection of landlord.

The two chains have not been in their new locations a full fiscal year as yet, but semi-authoritative estimates of monthly volumes would indicate a total annual volume of sales for the two units of approximately $391,000. Based on the census figures of total volume for all stores, we find the chains, comprising but 4.8 per cent of the total number of outlets (excluding dormant) are doing approximately forty per cent of the total volume of all outlets.

But what of the independent merchant in the meantime? Comparisons seem to mean little unless the elements under

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4From sources confidential with the writer.
scrutiny are comparable. There is no individual independent store in Denton that is truly comparable to either of the chain outlets. It behooved the writer, then, to seek a comparison between the chain group and a group of independent stores whose combined volumes approximate that of the chains. In all fairness to the chain units, the independents chosen were from the group of key stores. Bear in mind that these are "the better and more worthwhile" independent stores. It was found that the combined sales of five of the six key stores was about equal to the sales of the two chain units. Table 4 shows the distribution of sales among the five independent food stores. The sales of the two chain units are combined to avoid any possible embarrassment to the persons who co-operated with the writer in obtaining the figures. On this point, it might be well to explain that data on individual chain units such as those in Denton are all but impossible to obtain from the offices of the corporation itself. The usual reply to inquiries of this nature is, "We are only doing the volume we deserve in view of our investment," or something to that effect.

The percentage of total food sales accredited to the corporate chains in this study is admittedly conservative. Casual estimates by persons familiar with food retailing in Denton generally place the percentage much higher; some as high as fifty per cent of total sales.
TABLE 4

DISTRIBUTION OF SALES AMONG SEVEN KEY FOOD STORES IN DENTON, TEXAS, 1941

<table>
<thead>
<tr>
<th>Store</th>
<th>Annual Volume of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent stores:</td>
<td></td>
</tr>
<tr>
<td>Store A</td>
<td>$110,000.00</td>
</tr>
<tr>
<td>Store B</td>
<td>72,000.00</td>
</tr>
<tr>
<td>Store C</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Store D</td>
<td>104,000.00</td>
</tr>
<tr>
<td>Store E</td>
<td>51,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>$397,000.00</td>
</tr>
<tr>
<td>Chain stores:</td>
<td></td>
</tr>
<tr>
<td>Atlantic and Pacific and Safeway</td>
<td>$391,000.00</td>
</tr>
<tr>
<td>Grand total</td>
<td>$788,000.00</td>
</tr>
</tbody>
</table>

If it is true that the chain units are receiving only that volume justified by their investments, then it follows that the amount of their investment is approximately the same as that of the group of independents whose combined sales are comparable to the chain volume.

A survey disclosed that none of the seven enterprises under consideration owns the building in which it operates. The respective investments, therefore, consist of merchandise stock and furniture and fixtures plus the delivery equipment of those which offer delivery service. Probably the best means of reaching a fair and equitable appraisal of such
assets is through use of the tax records. For this study, the records of the city of Denton were chosen because it was felt that they had been subjected to closer equalization. Table 5 gives the values of merchandise stock and furniture and fixtures for each of the five independent and the two chain food stores as rendered for taxation with the city of Denton. In citing these figures, the writer did not

**TABLE 5**

**TAX RENDITIONS FOR STOCK AND FIXTURES OF SEVEN RETAIL FOOD STORES, CITY OF DENTON, TEXAS, MAY, 1942**

<table>
<thead>
<tr>
<th>Stores</th>
<th>Merchandise Stock</th>
<th>Furniture and Fixtures*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Store A.......</td>
<td>$2,800.00</td>
<td>$1,720.00</td>
</tr>
<tr>
<td>Store B.......</td>
<td>2,000.00</td>
<td>1,200.00</td>
</tr>
<tr>
<td>Store C.......</td>
<td>2,600.00</td>
<td>1,250.00</td>
</tr>
<tr>
<td>Store D.......</td>
<td>5,000.00</td>
<td>3,500.00</td>
</tr>
<tr>
<td>Store E.......</td>
<td>1,800.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Total**..</td>
<td>$14,200.00</td>
<td>$8,670.00</td>
</tr>
</tbody>
</table>

| Chain:        |                   |                        |
| Atlantic and  |                   |                        |
| Pacific....... | $3,000.00         | $1,750.00              |
| Safeway....... | 3,753.00          | 3,110.00               |
| Total**..     | $6,753.00         | $4,860.00              |

*Including delivery equipment.

**Grand total rendition of merchandise, furniture, and fixtures for the five independent stores was $22,870.00; that for the two chain stores was $11,613.00.
propose to reveal an undue differential in tax payments between independent and chain food stores; although discrepancies in the matter apparently do exist. Table 5 was intended to show that, other factors being equal, the independent merchants are not enjoying the volume of sales justified by their investment. This indicates that the corporate chain units in Denton are effectively employing the advantages of their system of operation. Certainly the need is clear for concerted action by the independents to minimize these advantages.

The retailer-owned co-operative warehouse offers the lowest cost form of effective group action by independent food merchants. Many authorities concede it to be more efficient than the corporate chain system of warehousing. In view of the nature of retailer co-operatives, this may well be true. The cooperative permits each member merchant to retain his individual ownership, identity, and freedom, thus eliminating the need for costly supervision and detection. The Census of Business lists the operating costs of retailer co-operative warehouses at 5.2 per cent of sales, compared to operating costs of 7.4 per cent of sales for wholesale operations of chains as found by the Bureau of Business Research, Harvard University.5

Having established a definite need for a retailer co-operative, the writer interviewed a representative group of independent food retailers to determine their willingness to participate in such an organization. The response was very favorable, considering the fact that most of the retailers knew little or nothing about the operation of a co-operative. A few held some doubt as to the general co-operative nature of food merchants as personalities, but felt that there was nothing that could not be overcome by a thorough educational campaign.

Organizing a retailer-owned co-operative warehouse distributing unit is not something that is superimposed from the outside; it must be done by the retailers who are later to become members of the organization. The enthusiastic leadership of one or a few of the group is quite essential to the effort. Denton food dealers have such leadership in the person of one progressive merchant who recently took the initiative in organizing a local trade association.

For greatest certainty of successful operation, authorities recommend that a retailer co-operative have a minimum of approximately forty bona fide retail merchant-members. In the city of Denton alone there are twenty-six stores of the key and primary classes from which members could be drawn. To this number may be added seventeen key and fifty-two

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6Lazo, Retailer Co-operatives, p. 36.
primary stores located within the Denton trade territory, that is, within a radius of thirty-two miles. Table 6 shows the number of stores of various classification located in the Denton trade territory. Only the key and primary stores can be considered for membership. The financial

TABLE 6
CLASSIFICATION OF RETAIL FOOD STORES OF COMMUNITIES WITHIN THE DENTON TRADE TERRITORY

<table>
<thead>
<tr>
<th>Community</th>
<th>Key</th>
<th>Primary</th>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roanoke...........</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Justin............</td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Ponder............</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Krum..............</td>
<td></td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Argyle............</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Lake Dallas......</td>
<td>1</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Lewisville......</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Little Elm.......</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Navo.............</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Farvin............</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Cross Roads.....</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Aubrey............</td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Pilot Point......</td>
<td>4</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Sanger............</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Polivar...........</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Valley View.....</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Decatur..........</td>
<td>6</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Gainesville.....</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total...........</td>
<td>17</td>
<td>52</td>
<td>37</td>
</tr>
</tbody>
</table>

*Data from General Foods, Inc., op. cit., p. 16.*
structure of most secondary stores is too unstable to qualify the proprietors for membership in a co-operative. It should not be difficult to obtain forty desirable and responsible members from these first two classes in the city and its surrounding territory.

After securing the minimum membership, participating retailers should choose a plan for financing their co-operative. Experience of retailer-owned food warehousing units in general has indicated the advisability of setting the capitalization, in the beginning at least, at not less than $12,000.00. This would require an outlay of three hundred dollars by each member. Ownership could be vested in the retailers either through stock issue or through certificates of deposit, but the choice of method should be left to the discretion of the group. It was not intended that this study should serve as a detailed guide for organizing a retailer co-operative in Denton, but merely to point out the need and the feasibility of one.

In the event the group decides in favor of a stock issue, several limitations should be observed. Common stock offers the best means of raising capital from members, and provides the basis for voting privileges as well. Some co-operatives of this kind place a limit on the amount of stock any one member may own, but regardless of the amount of stock owned, each member should have only one vote. Stock
should be sold only to members; thereby establishing their right to participate in the distribution of excess earnings on a basis of patronage. Those organizing the co-operative should make whatever provision for the purchase of common stock they see fit. Deferred payment plans may be worked out, but a certain minimum should be required before the retailer is permitted to vote or to participate in the distribution of earnings.

Preferred stock may also be issued by the co-operative if the members desire it, but very thoughtful consideration should be given the matter. It would seem advisable to wait until the warehouse business unit has been in operation long enough for the membership to become thoroughly familiar with its needs before action of this nature is undertaken. Should the issue of preferred stock be decided upon, it would be well to fix the rate of dividend it is to carry. It should be non-voting stock, of course, in that it does not signify ownership, but rather the investment of capital. One point in favor of preferred issue is that it provides a means whereby members with surplus money to invest may facilitate the financing of the co-operative. While it is desirable to confine the financing, so far as possible, within the group, care should be taken to prevent any one member's gaining too great financial power.

A few retailer co-operatives have obtained capital through deposit plans. In such cases the members make a
deposit against which is issued a certificate of deposit, with voting privileges. This method was devised chiefly to finance very small co-operatives among retailers of sharply limited resources. As the co-operative grows, this method becomes inadequate, and eventually the stock subscription plan is put into effect. Because of its simplicity, however, the deposit form of financing is probably more easily understood by prospective members and would tend to dispel their hesitancy to join the organization. In time, the members could begin small regular payments toward the purchase of capital stock, and these payments added to each member's earnings would soon put the co-operative's financial structure on a more flexible basis.

Original capitalization should be set high enough to allow the warehouse unit to function normally without added capital from the outside. However, if need should arise for additional funds, members might lend to their organization through the form of notes. This is done quite often by many co-operative groups over the country, but usually such notes have an early maturity, a definite rate of interest, and are unsecured. Bonds and debentures have been used in a few cases, but the issue of them is quite involved and probably should not be used except as a final resort. Authorities repeatedly warn against letting interest payments
on borrowed capital run away with all the savings from operations.\footnote{7}

Following their decision as to a financing plan, the group should give attention to the legal aspects of organizing. These consist mainly of two documents -- articles of incorporation and by-laws. The articles, of course, must be drawn up in accordance with the requirements of the state of Texas. The by-laws should contain only those provisions which are more or less rigid by nature and would not hinder the operations of the co-operative as it grows larger. It would probably be wise to place restrictions affecting management in a "constitution" separate from the by-laws. A competent attorney should be consulted in the preparation of these documents.

The managerial set-up of the retailer co-operative is very much the same as that of any commercial corporation. Members should elect a board of directors whom they believe will take seriously the responsibility of representing the interests of the entire membership. The board then selects a properly qualified manager. This task would be simplified for a co-operative board in Denton because a regular-line wholesale grocery firm, which operated a branch in the city, was recently dissolved and left two or three capable managers immediately available. The success of a retailer co-operative depends in very great measure upon the ability

\footnote{7Ibid., p. 78.}
and common sense of the manager. Logically, the direct management of the organization should be placed with someone experienced in wholesale operations rather than with a retailer, simply because the latter might be obtained at a smaller salary.

An ultimate aim of the retailer co-operative might well be to own the building in which the wholesale unit operates, and plans could be laid with that goal in mind, but to attempt such a step in the beginning would require an individual outlay greater than most retailers in Denton would be willing to make at this time. Meanwhile, the organization could lease one of several available buildings which, with slight alteration, could be made into an adequate warehouse. As to warehouse equipment, the directors should adopt a policy of securing the most modern possible in keeping with the capital limits of the co-operative.

After the physical facilities are arranged, the co-operative is ready to operate. The management should adopt the operating policies of the organization and then rigidly adhere to them. One of the most important of these is the credit policy. Of course, the ideal would be that all sales were strictly cash. Operating costs could then be still further reduced through elimination of many bookkeeping processes. In view of the fact that almost all of the probable retailer members in Denton offer credit in some form, it would hardly be advisable to establish the co-operative
warehouse on a complete cash basis. However, since the unit would be operating on a minimum capital, there must be very definite requirements surrounding the extension of credit. The majority of retailer-owned warehouses employ a "seven-day credit" policy. This means the retailer must pay his weekly bill on or before a given day of the following week. There should be an absolute dead line, and any retailer (this must be enforced on all alike) who disregards it would automatically be placed on a cash basis until he is fully paid up. Such strict credit control is necessary in order to discount bills regularly and to keep the capital of the organization constantly at work for all members instead of for any one member.

Another operating policy that must be determined in the beginning is the percentage of mark-up to be placed on merchandise. Some co-operatives have tried to establish a uniform mark-up as low as possible in order to impress the retailers with the organization's very low cost of operation. The chief difficulty with this policy is that it leaves an opening for the regular-line wholesalers to come in and attempt to undermine the bond between the co-operative and its members through offering loss leader items to the retailer. Theoretically, such outside appeals would not influence the retailer because of the many other benefits besides low prices which he stands to gain through co-operation

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8 Corbaley, op. cit., p. 111.
with his warehouse, but his long-established habit of seeking a bargain where he may find it is not easily overcome. For this reason, it seems advisable to adopt a price policy of "keep competitive" in merchandise mark-up.

It is quite natural that many co-operative members will want to see results in the form of distributed earnings checks right from the beginning. The experience of other retailer co-operatives has shown it wise to withhold all dividends until adequate reserves have been built up. After sufficient reserves have been accumulated, earnings may be distributed either in cash or in merchandise credits. There are points in favor of both methods. Cash payments tend to carry a greater psychological reaction regarding the efficiency of the warehouse unit. On the other hand, payment through merchandise credit certificates insures the members' spending their earnings at the warehouse.

These are only a few of the policies that must be determined. In the main, they are the "pillars of strength" in a retailer co-operative, and should be held intact by the management regardless of dissension and pressure brought to bear by any member or group of members. If these principles and policies are followed, there seems to be no reason why a retailer-owned co-operative grocery warehouse could not be organized and operated by the independent food merchants of Denton.
In time, the co-operative could join one of several national trade associations that have been organized for purposes of education, promotion, and management improvement. This would enable the local independent food retailer to profit by the knowledge and experience of others like him all over the nation; a privilege his neighbor, the corporate chain unit, has long enjoyed. As independents come to know the power of co-operative action, their attitudes of inferiority and defeatism will tend to vanish, and they can conduct their individual stores with an efficiency equal to any unit of comparable size, regardless of its ownership or system of operation.
CHAPTER VI

CONCLUSION

In the preceding chapters the writer has sought to describe the character of events leading to the present status of independent retail food merchants, and particularly those in Denton, Texas. As the study has progressed, it has become more and more evident that independent food retailers must co-ordinate their individual efforts if they are to gain an operating efficiency paralleling that of the corporate multiple-unit or chain system. Such co-ordination largely has taken three courses: (1) group buying clubs, (2) wholesale-sponsored voluntary chains, and (3) retailer-owned co-operative warehouses. It is the last of these that this study suggests as the most appropriate course for Denton independent retailers. In support of this conclusion, perhaps it would be advisable at this point to enumerate briefly the facts presented in the foregoing chapters.

It was found that the business of retailing food has undergone great change in the past twenty-five years or so. At the beginning of this period, a food store could be operated with a relatively small capital investment. Overhead costs were low, and a limited stock of merchandise was
sufficient. Merchandise mark-ups were high enough to afford the operator a comfortable margin of profit.

Today, conditions in food retailing are almost exactly opposite. Increased overhead and the necessity for an almost unlimited stock require a much greater investment than formerly. A growing intensity of competition has forced the lowering of mark-ups and consequently the reduction of the margin of profit to the operator, and increased the rate of mortality among individual food enterprises.

The more aggressive element in the intensified competition was the large corporation, operating increasingly large numbers of retail outlets. This was made possible through technological progress that provided the implements necessary to mass methods of retail distribution. Corporate chains have grown until they now do about forty per cent of all retail food business. Meanwhile, independent retailers have sought to check this alarming growth by encouraging legislation against the chain system of operation, but so far their efforts have met with but meager success.

The independent retailers of Denton are faced with the problem of competing with two of the largest of these chain systems. One of the chains operates in excess of 15,000 retail stores; the other, over 3,500. Both have integrated the function of retailing with that of warehousing and production to a degree that affords them tremendous advantage
over the independent retailer. Authoritative sources main-
tain the chain unit operates at a cost some seven per cent
lower than independent units on a basis of sales volume. In
addition to actual lower costs, the chain enjoys the ad-
ventages of more expert methods of merchandising, greater
distribution of risks, ability to vary prices, and quantity
purchasing.

These advantages are not strictly inherent in the chain
system; therefore, they are not forbidden to the independent
unit. To obtain such advantages, however, the structure of
independent distribution must undergo sweeping revisions.
It must be changed to imitate more closely that of cor-
porate chain distribution. To date, co-operative action by
independent retailers has been the most successful means of
realizing such changes. The retailer-owned warehouse seems
to be the most stable form of retailer co-operative. Small
co-operative buying groups cannot offer the individual mem-
ber enough to hold his loyalty. Voluntary chain groups
have grown to a considerable extent among independent move-
ments, but it must be remembered that these are wholesaler-
sponsored groups and are not the result of retailer effort.
The sponsoring wholesale firm retains as its chief purpose
the accumulation of profits, as contrasted to the pur-
pose of service to the retailer as held by the retailer-
owned co-operative warehouse.
In this regard, it may be said that no co-operative, retailer-owned or otherwise, can hope to achieve much success unless its members and management continue to hold inviolate the highest original service purposes which prompted its organization.

When two of the forty-eight retail food stores in Denton enjoy forty per cent of the total volume of sales made by all, it seems wise for the other forty-six retailers to seek a means of improving their position. This study suggests the retailer-owned co-operative warehouse as offering just such means. The savings to be derived by the independent merchant through participation in the co-operative will, in most cases, enable him to approximate corporate chain prices without materially reducing his mark-up. Heretofore, most attempts by independents to meet chain prices were made at the price of relinquished profits on the competitive items.

The city of Denton and its immediate trade territory have an ample number of higher-type independent stores from which to draw members for a co-operative. Minimum stock purchases would not have to be set beyond the means of many retailers. Adequate warehouse facilities are available. Competent management could be obtained at reasonable salaries. Generally speaking, there is not a single factor of co-operative warehousing absent from the potentialities of such an organization in Denton.
Efforts toward organizing Denton independent retailers should not be begun hurriedly or half-heartedly. Long and careful study must precede even the most remote attempt at actual organization. Genuine and enthusiastic interest should be aroused in a great majority of prospective members. This, of course, will require very active leadership by several commonly respected merchants. It is hoped that this study might in some small way assist in stimulating interest among some of the independents.

Such thorough groundwork is vitally necessary to harmonious relationships in the future between the various members and between the management and members of the co-operative. Activities in a co-operative represent a substantial departure from the tradition-steeped conduct and philosophy of conventional enterprises. Participating merchants must undergo a rather complete realignment of ideas and ideals. Such transformation is by no means an over-night process.

The future of a retailer co-operative would have limitations in that it is tied up with the profit system of economy. As the co-operative warehouse unit continues to grow and its members become more and more co-operative minded, it may develop that individual retailers will encourage the organization of consumer co-operatives built around their particular stores which are already in existence. The initiative for such a movement should come from the consumers themselves, however. Such a development could
not be hoped for until co-operative consciousness has so permeated the thinking and action of those retailers and consumers involved that the extension of co-operation is deemed a natural consequence. This condition, of course, will probably not be seen for a long time to come, but this fact does not distract from the possible organization of the more timely retailer-owned co-operative warehouse in Denton that would be the pride of independent merchants and townspeople alike.
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