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THE
Elements of Marketing

BY

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PREFACE

THIS book, while it deals with the elements of marketing, is not a book for beginners. Marketing in the aspects here treated is of the nature of an applied science; and in somewhat the same way that a treatment of the elements of bridge design would necessarily take for granted a firm grounding in underlying sciences, so it has been necessary to assume here a clear grasp of economic principles. At the same time, these principles have been dealt with as applied to this special branch of business, and for that reason there has been an avoidance, perhaps too scrupulous, of the terminology of the science.

Moreover, the treatment of the subject has been confined to the concrete problems of merchandise distribution. The larger aspects of the subject have been left to others better fitted to deal with them. The able discussion of this phase of the subject which has appeared in Alfred Marshall's *Industry and Trade*, published after these chapters were ready for the press, fully covers that field. In the collateral readings here listed numerous references to this remarkable book are included.

My purpose has been to present a simple statement of the problems of marketing by functions. As result of twelve years of teaching the subject of marketing

in the Graduate School of Business Administration at Harvard University, I have become convinced that really constructive work in this field will be achieved only by getting back of the complex forms of the marketing mechanism to the functions for the performance of which these various devices have developed. This is the central idea about which these chapters are grouped.

All of the various points covered might well be illustrated by accounts of marketing experiences, as is done in a few cases. I have felt, however, that to do this adequately would make the book too voluminous and would also obscure the main idea, the presentation of which is the book's object. I have been content, therefore, to utilize references to other easily accessible books which contain illustrative material and to suggest the sort of problem work which will produce illustrations better than could be put into a book.

PAUL T. CHERINGTON.

1920.

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THE ELEMENTS OF MARKETING

THE ELEMENTS OF MARKETING

INTRODUCTION

THERE is no really good single word for designating the process of distributing merchandise under what may be termed modern conditions. The simple process of barter or sale is only one factor in the process of distributing merchandise made under conditions of large-scale production and consumed in concentrated markets. Neither of the terms "selling" or "buying," therefore, describes fully what takes place. The term "merchandise distribution" is complicated and unwieldy and is open to the additional objection that only in so far as part of the process is concerned is it accurately descriptive except by extension much beyond its accepted meaning. Of the many terms tested for use in this connection each seems open to some objection.

The term "marketing," like the others, is not wholly satisfactory. It certainly is capable of too close restriction in its use. It has also the unfortunate connotation given it by its use in connection with the process of provisioning a household. For want of a better term, however, and in the hope that this one (which, after all, is capable of justifiable expansion to fit the case) may be made, eventually, to take on the larger dignity of its expanded use, it is employed in this book. The term as used is designed to cover the complex group of

services involved in the distribution of merchandise from producer to consumer, excluding only those functions which involve alterations in the form of the commodity. These latter must be regarded as of a different nature and therefore must be treated as manufacturing or production processes.

Marketing, even under the most complex of modern conditions, may still be carried on in the simple form of barter, or of simple and direct passage of goods between original producer and final consumer. Indeed, a surprising amount of business still is conducted in this way. Cabinet-making, custom shoe-making, tailoring, in fact all of those distributing operations which call for the rendering of a personal service in substantial amount in addition to the actual transfer of ownership of merchandise, serve to illustrate the persistence of this simple form of direct marketing. It is not accurate to say that direct sale is no longer important under modern conditions. But it is true that it is not the typical modern marketing method.

The conditions which have served to render complicated the task of distributing merchandise include practically all of the economic developments and many of the social changes involved in what are commonly referred to as modern conditions of life. Of these, perhaps the most conspicuous is large scale production. Goods produced in large quantities cannot be produced exactly in the quantities, and at the precise time in which they are to be consumed; nor is there the accurate adjustment which exists in the case of simpler transactions with regard to the quality of the goods produced. More-

over, the place of production may not at all coincide with the place of consumption. Thus, increase of the scale of production alone introduces maladjustments between producing and consuming conditions with regard to quantity, quality, time, and place, which it becomes part of the marketing problem to correct.

The spread of large-scale production, while one of the chief factors, does not stand alone among circumstances surrounding production as a cause of augmented perplexity of marketing problems. In fact, this phenomenon is itself a result of far-reaching changes lying back of it. For instance, the accumulation of adequate quantities of surplus capital, the increased accessibility of large quantities of raw materials, and the social conditions which have, in the main, supplied sufficient quantities of suitable labor, all have played their part in facilitating the development of large-scale production in its present form. Each of these has affected marketing problems, either directly, or through enlarged scale of production, or both.

The influences modifying the problems of marketing have not all arisen, however, from changes in conditions surrounding production. The conditions surrounding consumption have had quite as distinct an influence upon these problems and the mechanism which has been developed for their solution. For example, such social changes as the decline of illiteracy cannot be neglected in attempting to account for the distributing mechanism of the present day. It is safe to assume that the general intelligence of purchasers concerning goods is rising, and that relations between buyer and seller

will show resulting modifications. The growth of cities, the increased mobility of the population in the United States and elsewhere also suggest social changes which have had a direct effect upon the marketing system. Another change in conditions surrounding consumption is the general use of such devices as rapid transit systems. As long as the market for a retail store, to cite only one example, was confined to those people living within walking distance, and to a comparatively few others who lived beyond that radius, but still within driving distance, the size to which the store could develop was limited by that relatively small market. With the introduction of electric street railways and the establishment of a low fare covering a radius of several miles, the possible market of such a store was obviously increased and the limitations on the development of the size of the store were in a measure removed. Many such radical changes in the conditions of living of great masses of the population have come within a generation. They serve to indicate something of what has been in progress in recent years which may be grouped together as influences modifying the conditions of consumption.

While these new conditions surrounding production and consumption have been growing up, the facilities for marketing, and the conditions under which the marketing processes are carried on also have shown remarkable change. The most revolutionary changes are those due to the betterment of facilities for the transportation of goods. Another factor of great importance has been the availability of capital for dis-

tributing enterprises. This is a comparatively new development in the history of finance. A very marked effect on distribution during the last few years has followed also from the general upward trend of practically all the elements which go to make up the cost of distribution. This has made the devising of new forms of distributing organization an attractive field for adventure. The experiments undertaken have been generally of one of two forms. Either the effort has been aimed at increasing the scale of operation and thus in some measure decreasing the relative cost, or else it has been aimed at increasing the speed of sale, thus turning the capital oftener and making it possible to do business on a narrower margin of profit.

The increased complexity of modern marketing methods is not due to any change in the inherent nature of the elemental task of marketing, namely, effecting a change in the ownership of merchandise. It apparently arises partly from the addition of other supplementary tasks not necessary until recently, and partly from the development of more indirect forms for this task itself.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book I, Chapters H, VIII, and IX, and Appendix B.

P. T. Cherington, *Advertising as a Business Force*, Chapter V.

CHAPTER I

THE ELEMENTS OF MARKETING

THE essential task of any form of merchandise distribution (or marketing) is to effect a transfer of ownership of goods in exchange for what is considered to be an equivalent. Instances are numerous even in present-day commerce in which one single transfer of this kind represents the complete progress of merchandise from the producer to the consumer. The householder who wants a piece of furniture made to order goes to a cabinet-maker and with him agrees upon design, material, time of delivery, and price; all the conditions of sale are the subject of either expressed or implied agreement between the two, and all of the services incident to the transfer of ownership are of such a character that they are absorbed by either one party to the transaction or the other, while their cost disappears in the transfer price. Other illustrations of the same sort of selling process are to be found in custom tailoring, custom shoe-making, and in fact all those distributing operations which call for the rendering of a substantial amount of personal service in addition to effecting the actual change of ownership of the merchandise. The element of personal service, it should be made clear, is not an essential factor in keeping those transactions simple and direct, but it illustrates the type of influences which keep these direct forms of marketing alive.

In many cases of the sale of equipment or of materials for manufacturers direct sale exists on a large scale, although it is frequently modified by contracts or agreements providing for the assignment between the two parties of such risks or other causes of expense as might not without special arrangement be equitably covered by the selling price. Again, in the case of an appreciable portion of the sales of garden truck, direct sale from the producer to the consumer is employed, although in this case it is not uncommon to find the selling centralized at public markets, and many of the conditions of sale controlled by market regulations instead of by individual agreement.

The marketing problems involved in the simplest form of direct transactions are elementary. Goods are sold as they are produced. The marketing functions include few if any activities beyond those concerned with the fundamental task of effecting a change of ownership. The corresponding mechanism is simple; functional distributors either do not exist or are unimportant. This form of marketing needs no discussion to supplement the bare statement of the economic rudiments involved. In discussing these simpler forms of sale, generalizations are easy and safe; the principles involved are fairly plain; and the price-making factors and the elements of marketing cost present no troublesome variations.

For the more complex forms of sale, however, where the producer and the consumer do not actually meet, the marketing task of effecting a change in ownership, while it still exists, no longer constitutes the single neces-

sary feature of the marketing process. Economic discussions frequently dismiss such sales as being in no essential point different from the simple forms of direct sale. It is one of the purposes of this discussion to show that while these more elaborate forms of selling merchandise do provide for the performance of the elementary task of effecting a change in ownership of merchandise, they provide for its performance in a form substantially modified from that in which it occurs in elementary transactions; and they provide also for the performance of other activities so closely related to this fundamental task as to be in many instances inseparable from it. Most of these additional activities are not to be found at all in the case of direct transactions; nor is there any uniformity as to the number of them to be found in the case of different types of merchandise sold through a distributing mechanism. Some of these additional activities are directly concerned with the merchandise itself; while others are of the nature of specialized services intimately associated with the transfer of ownership, although perhaps not essentially a part of it. The assumption of risks, the financing of transactions in process of completion are concrete illustrations of the types of activities referred to.

This more elaborate type of marketing will at once be recognized as not only prevailing more widely than the simpler form of direct contact between producer and consumer, but also as being more typical of modern conditions. With the factory system so large an element in production, and with the urban concentration of markets the most conspicuous feature of consumption,

it is clear that the old type of contact is rendered difficult in many cases. These two characteristic developments of society during the past century would alone account for the large degree of elimination of the old contact between consumer and producer and the development of a marketing mechanism as an apparently necessary step between this type of production and this type of consumption.

With the acceptance of the idea that the essential task of marketing is the effecting of a change of ownership in exchange for an equivalent, it is evident that the essential activity of the whole marketing process is to bring a buyer and a seller together in a trading mood. This essential activity is common to both direct and indirect types of marketing. With the recognition of the obvious fact that under modern conditions other tasks are added to this, it becomes necessary at the outset of this discussion to determine clearly the nature of those features of the marketing process thus made necessary in addition to and as supplementary factors in the actual purchase and sale of the goods.

For purposes of discussion, it may be assumed safely that if the buyer and seller are brought together in an effective trading mood, an actual transfer of the ownership of the merchandise will be effected; at least the goods will have been marketed. The establishment of this contact may thus be set up as the indispensable activity of the marketing process, and all the other activities, whatever they may be, may be grouped together as supplementary to this. At the outset, upon

assuming modern conditions of production and consumption, it becomes clear that the actual process of bringing the buyer and seller together in a trading mood is not always effected in the same way, and some recognition of characteristic types is necessary. There may be actual *direct contact*, obviously, in which the two come together and discuss terms in person. A second form of contact which is far more common, however, is that in which the buyer and the seller effect their exchange with each other as principals, but do it more or less completely with the help of others serving as agents, or intermediaries for them. This might be termed *indirect contact*. In addition to these two forms of contact, there is a third type of relationship between the buyer and the seller brought into contact in a trading mood which is less simple in form. For purposes of discussion, this may be termed *artificial contact* between buyer and seller, and the term is used to cover most of those types of pre-disposition to buy which are the result of properly conducted modern advertising. In numerous instances, consumers find themselves favorably disposed toward an article and its producer, although they may never have used the article and may never have had any dealings with its maker. Their favorable opinion would, upon analysis, be found to be due wholly to what they have seen or read about it in pictured or written advertisements. They have been in artificial contact with the producer.

The relative cost and effectiveness of these three methods of bringing the buyer and seller into contact varies widely with conditions. The most direct form

of contact is by no means either the cheapest or the most satisfactory, nor, on the other hand, are the artificial contacts established by means of advertising necessarily costly. A good illustration of this point is to be found in the case of the Kentucky Wagon Company, which, in January, 1911, announced that it planned to adopt a mail order system of distribution, selling its wagons directly to the farmers. The company had two good trade marks widely known, and the company believed that by the establishment of direct contacts with the users of the wagons it could reduce the cost of distribution and divide between itself and the customers the saving thus made. In April of the same year it was announced that three months of trial had demonstrated the fact that direct distribution was actually more costly than sale through the regular channels, in addition to being much less effective. It was declared at that time that the differences between carload and less-than-carload freight rates in many instances was greater than the pro-rated cost of delivery through the dealers.

In cases where the scale of production is larger than the consuming capacity of the immediately adjacent market, the relative value of direct as compared with indirect contact between the producer and consumer is likely to be small, if it does not disappear altogether. Similarly, if the unit of consumption is small, and the consuming markets are widely scattered, any possibility of advantage in direct contact between producer and consumer disappears altogether, and such contact is likely to be both difficult and costly.

The fact that under these circumstances the relationships between producer and consumer are indirect is frequently allowed to obscure the fact that this contact is real. The activities of the producer and his interest in and responsibility for the goods do not cease until the merchandise disappears from commerce in its existing form. The character of this interest has been a ground of dispute, and the legal decisions in connection with many such matters as resale price maintenance leave numerous aspects of the question still open. It is clear, however, that both as a matter of good business practice as well as a matter of law the interest of the original seller in the goods does not terminate until their final sale in their existing form if goods are in any way designated as having been made by him. If the goods are imperfect, his own interests, quite aside from any legal obligations, dictate the wisdom of correcting the defect. On the other hand, if the merchandise is good and the customer takes kindly to it, the good will created by the sum of numerous favorable impressions constitutes one of the producer's most highly valued assets.

One other point in connection with these three types of contact between seller and buyer which is worth particular note is the way in which artificial contacts, set up as the result of hearsay, or at least as the result of causes other than actual satisfaction in the use of the commodity, frequently facilitate the distributing process and thus partially or wholly offset, by means of reduction in other selling costs, the outlay put forth in their establishment.

This conception of the underlying task of marketing as being the establishment of a contact which may be of any one of several types may be somewhat difficult to follow in certain isolated cases; but if it is once accepted it greatly simplifies the task of arriving at a firm basis for discussing the problem of merchandise distribution, as distinct from the problems of production and consumption. To regard as a unit the contact established between changes in the form of merchandise unmistakably leaves the statement of these problems simpler and in nearer correspondence with actual conditions than does the conception of each step or each transfer of ownership without a change in form as being a separate marketing process. With this conception, moreover, it is possible to hold rigidly to the idea that between successive changes in form or of identity the processes of marketing present sufficient points of similarity and unlikeness to make it possible to reason about them with safety, and in comparatively simple terms. This conception makes it plain, for example, that between such changes in identity it is the one underlying fundamental task to effect a change in ownership of merchandise for what is considered to be an equivalent, this being effected by bringing together buyer and seller in a trading mood.

With this underlying task thus simply stated, it is possible to turn to an examination of those incidental or supplementary activities, which accompany this process under modern conditions of production and consumption. These, upon examination, are found to be capable of being gathered into three distinct groups:

1. Merchandise Functions.
2. Auxiliary Functions.
3. Sales Functions.

(1) *Merchandise Functions.* With the typical conditions prevailing in the field of production, or consumption, or both, there arise, as has been said, four types of maladjustments which require correction by some part of the marketing mechanism. These maladjustments are (1) those between the quantity of merchandise produced and that sought for consumption; (2) those between the quality of merchandise produced and the various grades sought for consumption; (3) those between the time of production and the time of consumption; and (4) those between the place of production and the place of consumption.

Corresponding with each of these, there have grown up four recognized marketing functions which occur commonly in marketing systems. There is, first of all, the function of assembling, or its converse, the disbursing of merchandise, which is designed to adjust the lack of balance which occurs in regard to the quantity of merchandise offered for sale and sought for purchase. Similarly, the function of grading and classing merchandise has grown up to take care of the maladjustments in quality; storage functions have been developed to regulate the time of production and consumption, and the transporting or moving functions correct the maladjustments which have to do with location.

In a large measure, each of these has become more or less specialized, but each is so intimately connected with

the actual marketing of the merchandise itself, that by grouping them together there is a recognizable community of nature. Each manifestly has to do with the condition in which the merchandise arrives at the market where it is to be sold and bought, and therefore there is ample justification for classifying them together as the “merchandise functions.”

(2) *Auxiliary Functions.* In addition to the functions which have to do with the actual condition of the merchandise itself, there is the second group here designated as the auxiliary functions, which are common and, in many lines of marketing, quite indispensable. These include financing of merchandise, with the corresponding banking service employed more and more freely as a necessary part of the marketing machinery; also the assumption of risk, which usually is either in the form of insurance or in the form of future trading. These functions manifestly have a very intimate association with the marketing operation; but since they do not have to do with the actual condition of the merchandise itself, it seems desirable to discuss them separately, and for purposes of convenience in classification, the term “auxiliary functions” will be applied to them.

(3) *Sales Functions.* The third group of functions, having to do with the conditions under which the sale is conducted, shows a wide variation in importance, according to the character of the sale and the nature of the final consumption. In the case of certain types of goods, the sale of merchandise is almost inseparably associated with the rendering of certain manual or professional

services. Millinery, plumbers' supplies, and some forms of equipment may be cited as illustrations. Certain other goods call for expert knowledge on the part of the seller. Placing this knowledge at the disposal of the buyer amounts to a service rendered for the buyer, or a special marketing function performed. A case in point would be the knowledge expected of a merchant in diamonds or, for most customers, oriental rugs. The sale of machinery also frequently involves specialized knowledge or service, or both, on the part of the seller. All retailing, except that of the most simple direct type, might well be considered as being made up chiefly of the performance of functions of this kind. For the proper conduct of a retail store a location which is convenient to customers is necessary. This entails a relatively large expense for rent. A suitable sales force must be provided at large expense for sales wages. The preservation of the goods against deterioration, the providing of attractive appearance for the store, credit facilities for numerous customers, and delivery are among the other services of kindred nature. These are not inherently a part of the actual transfer of merchandise. They are, rather, concerned with the conditions under which the sale is made.

Indeed, a large share of the expense involved in the case of a retail establishment is in the nature of outlay made for the purpose of obtaining what custom has established as a suitable sales environment, under which retail transactions can be carried on. Similarly, a substantial part of the office expense and at least a portion of the customary sales expense in the

case of articles for manufacture, or for use as equipment, cannot with accuracy be regarded as having to do either with the condition of the merchandise sold or the auxiliary functions involved in the sale; nor have they to do, strictly speaking, with the main task of bringing the buyer and seller together in a trading mood. For want of a better term this group of functions will be designated as "sales functions."

In summary, the elements of marketing under modern conditions may be said to embrace two recognizable groups of activities, one of which is elemental and is in all essential respects identical with the central task of merchandise transfer under all conditions, even the most simple, while the other, or supplementary group, embraces separate types of functions which may be regarded as the direct result of modern conditions of production and consumption.

In undertaking to trace the existence of these functions in modern business independently of the functionaries which have grown up for their performance it early becomes evident that the emphasis upon these various functions in the several groups varies enormously. It is clear also that this variation coincides less accurately with variations in the nature of goods than it does with the character of the uses to which they are to be put. It will be the purpose of the following chapter to indicate a method of classification of marketing, which, combined with the foregoing summary of marketing functions, will make it possible to subdivide the field. This subdivision it is believed will make more detailed discussion far more accurate than

if it were based on sweeping generalities applied to the whole field of marketing.

COLLATERAL READING

P. T. Cherington, Advertising as a Business Force, Chapters I and II.

P. T. Cherington, First Advertising Book, 1916, Chapter I.

QUESTIONS AND PROBLEMS

1. List the forms of direct sale from producer to consumer to be found ordinarily in any country village community, and in any city or town, respectively.

2. What are the common characteristics of the merchandise thus sold; of the conditions under which the sale is made; of the producing vendor with respect to his capital resources and his scale of operations?

3. List in a similar manner the common forms of indirect sale.

4. Indicate the characteristics of the various distributors with respect to the items covered in Question 2.

CHAPTER II

THREE CLASSES OF MARKETING

By adhering to the conception that marketing cycles are complete between changes in the form or nature of goods the freedom of choice in the basis for classifying marketing phenomena is greatly restricted. Classification by commodities, treating the entire progress from original production to final consumption is by this conception made possible. For example, in the case of cotton, the marketing phenomena in the case of raw cotton are thus set aside from those concerned with cotton yarn, cotton cloth, or garments made from cotton cloth. Moreover, in the case of any particular one of these steps it is manifest that there must be subdivision. Cotton cloth sold over the counter to the individual consumer is not handled on a basis identical with perhaps the same cloth sold in 100-piece lots to a shirt-waist manufacturer. It is possible also that there are recognizable differences between the marketing task in either of these cases and the case of the sale of the same cloth to be used in connection with the permanent decoration of a building or, say, as part of stage scenery.

One method of division which is capable of defense, on the ground that it recognizes those factors in the problem out of which grow distinctions both as to func-

tions and functionaries, is a division based on the character of the final sale. On this basis, one class of merchandise which seems to have common characteristics is raw material, or, more strictly, material whose disappearance from commerce takes the form of sale to a manufacturer for change into some other form of goods. The distribution of this type of merchandise under the factory system throws into the foreground an entirely different group of problems from those involved in the sale, for example, of merchandise for retail. The preservation of uniformity in quality in successive purchases, the ability to renew purchases as desired, and the guarantee of such continuity of supply as may be necessary are the types of problem characteristic of the distribution of this sort of merchandise which disappears from trade in the production of some other commodity. The price to be paid for articles of this class depends less on their "utility" than on the price which may be charged for the goods to be made from them.

A second class of merchandise, which has some points in common with this, but enough points of difference to justify separate classification, is found in the case of such materials as still remain in existence and use as part of productive equipment after they disappear from commerce. Merchandise of this type disappears from trade. It has its marketing problems to a large extent shaped by the fact that there is a definite relation between the prices paid for it and the uses made of it. Building materials, machinery, railway equipment and supplies, and kindred articles apparently offer enough variations from the marketing conditions in the case of

either articles for retail consumption or those for remanufacture to justify recognizing them as a separate class.

The class of merchandise which offers the most complicated marketing problems, however, is that type of goods which disappears from commerce to go into individual consumption, or into household use. The distribution of goods of this type clearly involves certain marketing functions which are not equally important in the final sale of other types of merchandise. The retail functionary and the whole group of retailing services are conspicuous features of the distributing task in this group. The division of the product into small quantities and the movement of it to points easy of access to the final consumer take up a large part of the energy and involve a large share of the cost in the distribution of this sort of goods. Neither of these problems is a serious factor in the handling of the goods not consumed in small units. "Utility" is one of the chief price-making factors in merchandise of this class.

Having once recognized such a classification of merchandise, it becomes necessary to examine the prevailing types of marketing functions in various industries and trades to determine their general nature and contrasting features in the light of this classification. A marketing transaction in the case of merchandise sold to be remanufactured is ordinarily conducted on a relatively large scale. Moreover, it is necessarily only one of a number of kindred transactions by which the supply of material is kept up. For example, if a blast furnace

company buys iron ore, it presumably will buy it in quantities which under modern blast furnace practice will be relatively large, and it is also a safe assumption that it will buy iron ore more or less continuously as long as the blast furnace remains in operation. The large scale and the continuity of this sort of transaction is a common characteristic of purchases of merchandise for manufacture or remanufacture. The most common device to be found in this field of marketing is the contract (frequently of a renewable character) which has practically all of the terms and conditions standardized, leaving only the price and the conditions of delivery to be determined. In the case of mineral products not yet mined, it is not uncommon for this type of contract to take the form of an agreement on a lease and royalty basis under which frequently the purchaser of the ore becomes either virtually or actually the operator of the mine. In this class of marketing transaction, the relation between the producer and consumer is intimate as well as continuous, and the connections thus formed may become an important part of the resources of the concern doing the purchasing. The ore contracts of the United States Steel Corporation are a case in point. If one were seeking for the underlying cause of a substantial part of the movement toward the integration or common ownership of successive steps in manufacturing industries in this country in recent years, he could find it in many cases in some of these typical contract relations. In other words, the nature of some of the devices adopted for the solution of this type of marketing problem is a powerful influence leading the

producer and consumer together under common financial control, commonly called "integration."

There is observable a very different general kind of marketing transaction in the sale of merchandise for the equipment of various enterprises both large and small. In the case of the larger types, such as the sale of railroad material and equipment, many kinds of machinery, and other kindred commodities, the transactions are on such a large scale as to affect materially relations of a financial nature between buyer and seller. A common solution in the case of marketing enterprises of this kind, as well as in the case of many articles for remanufacture, is the use of a contract by means of which all adjustments of the problems of quantity, quality, time, and place are stipulated in the agreement. This form of sale and the resulting relations between the buyer and seller, based as they are upon a divergence between the nature of the business of one party to the transaction and that of the other, has caused frequently the setting up of what are known as "interlocking directorates" as distinct from the actual integration of ownership of both the buying and selling concerns. In this way a continuance of friendly relations is assured while organic separation is maintained. In transactions of this class, purchases typically are less frequent than in the case of merchandise for manufacture, and the incentives to actual interownership between buyer and seller are less effective; although there are ample reasons for making sure that when either buyer or seller comes into the market, he can resume connections on a satisfactory basis. By having an appreci-

able number of the same people sitting in the controlling boards of both buyer and seller this can be effectively guaranteed.

Marketing of the remaining, and most conspicuous, class covers the sales of merchandise for individual or household use, and therefore includes the greater part of business terminating in a retail sale. In this class of marketing, in addition to the elementary problems common to both of the other classes, the process of distribution necessarily involves a large amount of emphasis on what have been referred to as the sales functions. The most conspicuous feature of the sales undertakings of this type is the comparatively small size of the sales unit in which the merchandise is disposed of in the final transaction. If there is a series of wholesale dealings leading up to this final transaction, each of these in a large measure takes its character from the fact that eventually the goods are to be offered to the consuming public in finely divided units. For merchandise of this kind there is inevitably some point in the course of the progress of the goods from producer to consumer up to which it is desirable to handle the goods in large quantities and beyond which it becomes advisable constantly to decrease the quantities in which the merchandise is moved through succeeding marketing steps. In the case of this class of merchandise another factor of great importance is the individual nature of the final sale. In such a sale there is an element of special selection or choice; hence, the physical conditions under which the sale is made become a conspicuous feature of this final transaction.

With these general statements concerning the nature of the essential functions of marketing and the degree of emphasis placed on these in the case of three clearly recognizable classes of merchandise it is possible to set down in schedule form a general summary which will serve to make clear the relationship between some of the principal points which have been made thus far:

THE FIELD OF MARKETING

- I. Direct Marketing.
 - A. Elementary Activity.
 - 1. Bringing together buyer and seller in a trading mood.
 - 2. Contact always direct.
 - (a) Actual contact.
 - (b) Artificial contact — as by advertising.
 - B. Supplementary Activities: matters of direct agreement between buyer and seller.
- II. Indirect Marketing: marketing through a mechanism.
 - Class A. — Merchandise for Manufacture.
 - A. Elementary Activity.
 - 1. Bringing together buyer and seller in a trading mood.
 - 2. Contact effected with aid of only one or two intermediaries, usually brokers or merchants.
 - (a) Actual contact.
 - (b) Artificial contact.
 - (c) Indirect contact.
 - B. Supplementary Activities.
 - 1. Merchandise Functions.
 - (a) Assembling.
 - (b) Grading.
 - (c) Storing.
 - (d) Moving.

2. Auxiliary Functions.

- (a) Banking.
- (b) Assumption of risk.
 - (1) Insurance.
 - (2) Trading in futures.

3. Sales Functions.

- (a) Sales usually effected by continuing arrangement or contract.
- (b) Tendency toward integration.

Class B. — Merchandise for Equipment or for Large Scale Consumption.

A. Elementary Activity.

- 1. Bringing together buyer and seller in a trading mood.
- 2. Contact effected by such intermediaries as brokers, supply houses, or wholesalers.
 - (a) Actual contact.
 - (b) Artificial contact.
 - (c) Indirect contact.

B. Supplementary Activities.

1. Merchandise Functions.

- (a) Assembling.
- (b) Grading.
- (c) Storing.
- (d) Moving.

2. Auxiliary Functions.

- (a) Banking.
- (b) Assumption of risk.
 - (1) Insurance.
 - (2) Trading in futures.

3. Sales Functions.

- (a) Expert knowledge on part of seller.
- (b) Manual or professional services sometimes necessary. Sales are usually by:
 - (1) Contract or special agreement.
 - (2) Occasionally by lease.
- (c) Interlocking directorates common.

Class C. — Merchandise for Individual or Household Consumption.

A. Elementary Activity.

1. Bringing together buyer and seller in a trading mood.
2. Contact completed only after several steps; two common types are :
 - (1) Wholesaling and retailing.
 - (2) Subdivisions of wholesaling steps.
 - (a) Actual contact.
 - (b) Artificial contact.
 - (c) Indirect contact.

B. Supplementary Activities.

1. Merchandise functions.
 - (a) Assembling.
 - (b) Grading.
 - (c) Storing.
 - (d) Moving.
2. Auxiliary Functions.
 - (a) Banking and credit.
 - (b) Assumption of risk.
 - (1) Small amount of trade in futures.
3. Sales Functions.
 - (a) Equipment of sales place.
 - (b) Personnel of selling force.
 - (c) Relations with public.
 - (d) Sales to the consumer by individual transaction in small lots.

Like any schematic presentation of so complicated a matter this schedule is defective. Yet it does serve to make clear some general relations. Without more detailed discussion of the interrelation between the various marketing functions, as well as of the nature of the marketing mechanism which has been developed for the performance of these functions, many features of this

scheme of presentation must remain obscure. But in any case it is a tangible basis for subdivision of the field and a classification of functions in which, at least, the parts do not overlap.

COLLATERAL READING

- P. T. Cherington, *The Wool Industry*, Chapters IV, VI, and X.
P. T. Dondlinger, *The Book of Wheat*, Chapter XIII.
C. R. Van Hise, *Concentration and Control*, Chapter II.
M. T. Copeland, *Cotton Manufacturing in the United States*
Chapters X and XXI.

QUESTIONS AND PROBLEMS

1. Illustrate each of the main divisions of the outline of "The Field of Marketing" with examples of commodities.
2. What conditions are most favorable to the integration of successive processes in production and distribution in any industry? Compare iron and steel in this respect with either lumber, coal, grain, wool, or cotton.

CHAPTER III

SOME TYPES OF MERCHANDISE DISTRIBUTERS

THE functions and activities of the marketing system described in the preceding chapter are not the basis for the organization of the mechanism for their performance. The mechanism, in the main, has grown up as a result of influences quite aside from the specialized performance of the marketing tasks. Typical forms of distributing functionary exist, to be sure, but these types lack sharpness of definition largely because the functions each performs are more or less composite.

The broker is perhaps simplest of all the forms of marketing functionary. His task is mainly that of bringing buyer and seller into contact. He is one of the few forms to be found both in marketing of the direct type and also in that of the type in which the processes are specialized. But even the broker is not always content with being a mere broker. His work may be combined with the tasks of a commission house, or he may even buy and sell merchandise on his own account.

As one proceeds through the successive steps in the merchandise-distributing system from producer to consumer the distributing services rendered by the forms of distributor which have been developed grow increasingly complicated and the relationship between forms of organization and functions less well defined. Commission houses, for example, not only perform

many different kinds of marketing tasks, but they show wide variations in form and functions between individual concerns. Agencies, wholesalers, and jobbers also lack standardization. Indeed, the terms themselves are used with various meanings even in a single trade, and the definite classification of specific houses is possible in relatively few instances. Even the term "retailer" is of variable meaning, although this type of distributor is the most common of all. Prolonged disputes, in trade circles and at law, have been engaged in over the question as to the proper classification of a house which does a retail business while it also sells to retailers merchandise to be resold. Even more difficult is the question of classifying a retail house which buys its stock from its own wholesale department, separately organized and operated. Again, in the subdivisions of the retail business, terms designating forms of retail establishment are not clearly defined. The department store is not easy to define so as to exclude country general stores, on the one hand, and specialty stores carrying diverse lines, on the other. Nor is the line of demarcation clear between a chain-store concern and a store with branches, or a group of retail stores having a coöperative connection with a wholesale or manufacturing concern, as in the case of the United Drug Company.

In short, the marketing functions cannot be found directly reflected in corresponding organizations. Nor are they easy to keep clearly and simply stated when they are traced through the successive steps of the established mechanism for their performance.

Diagrammatically the successive commercial steps in the movement of a commodity from producer to consumer when it passes through a manufacturing stage may be represented as follows:

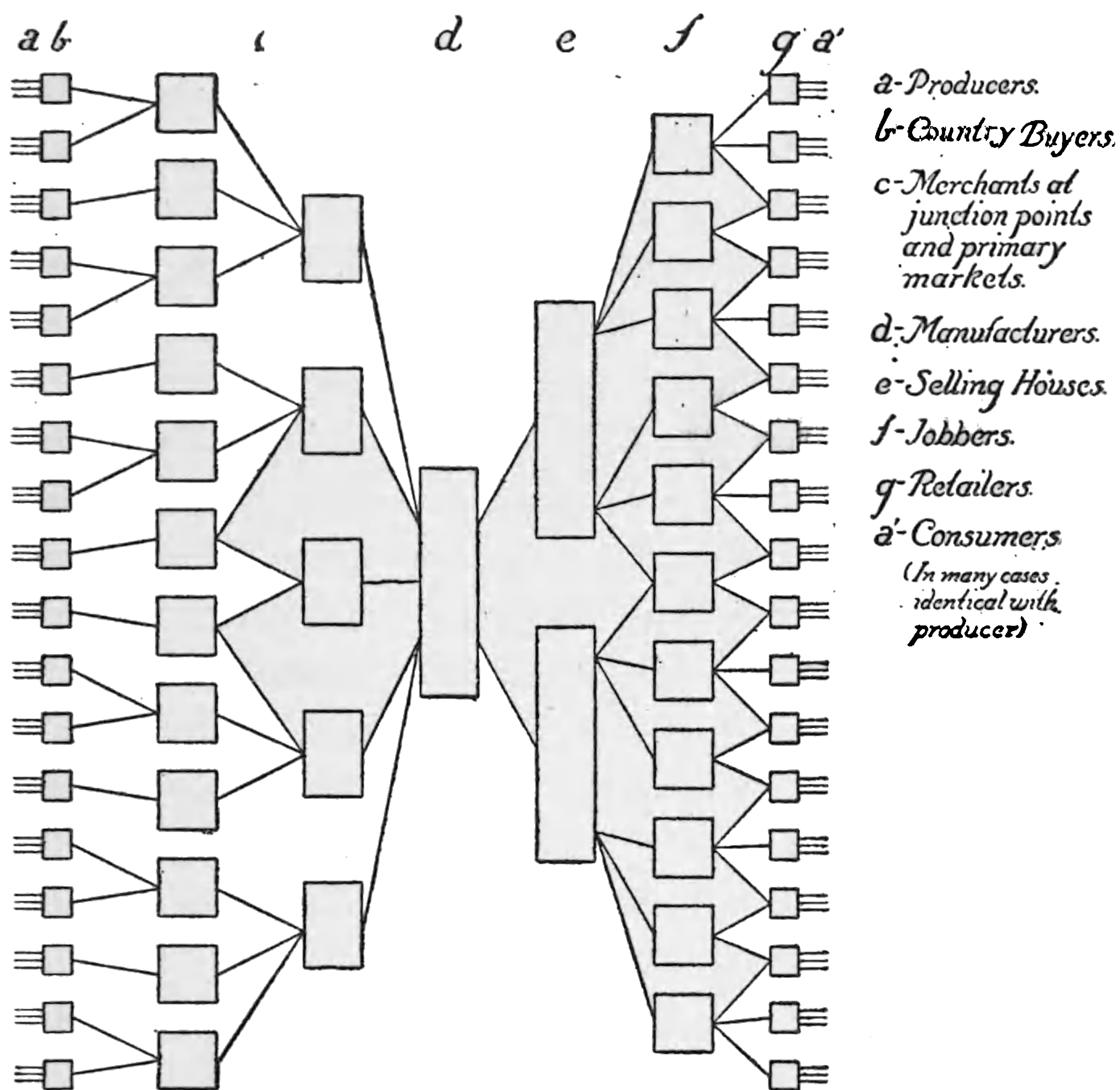


FIG. 1

Such a diagram can be merely suggestive. Its shortcomings are many. In the first place many of the producers are the consumers of the finished product, so that sections *a* and *a'* really should join. Again, the relative number of first buyers, *b*, and of retailers, *g*, should be enormously increased so as really to reflect

the assembling and disbursive operations with some degree of accuracy. Moreover, the number of middlemen stages represented by c in the case of raw material, and by e and f in the case of manufactured products, may be more numerous, and the relative numbers of customers should be much increased. And yet, notwithstanding these and other shortcomings, the diagram does make clear the idea of the complexity of marketing functions introduced by concentrated production of manufactured products, with its accompanying dependence on scattered sources of raw material.

This diagram merely shows the operation of the assembling function which is but one of the four merchandise functions in process of performance. Each of these separate functions will be discussed at length in subsequent chapters. But in that discussion this question of the functionaries and their place in the distributing process will make it necessary to have in mind some idea of the inter-relations between the parts of this mechanism.

Retailers

The census of 1910 shows that about 1.2 per cent of the people in the United States in that year were engaged in the various branches of retail business, the total number returned being 1,195,025. As there is no trade census, the stating in trustworthy figures of the size of the retail business, or even of any single branch of it, is impossible. But certain general relative ideas may be gained from the following figures taken from the census of 1910, supplemented by the number of concerns on

lists for sale by a house engaged in the sale of mailing-lists compiled from directories and similar sources :

CENSUS 1910, VOLUME IV, PAGES 220-22	MERCHANTS, MANAGERS, AND SUPERINTENDENTS, CENSUS 1910	NUMBER OF CONCERNS LISTED BY AN ADDRESSING COMPANY
Agricultural implements and wagons .	8,518	21,946
Art stores and artist material . . .	2,370	—
Automobile dealers	4,597	16,947
Bicycles	1,532	—
Books	19,346	25,139
Butchers and meat dealers	124,048	14,600 ²
Buyers and shippers of grain	11,535	—
Buyers and shippers of live stock . .	32,516	—
Buyers and shippers of other farm produce	6,864	—
Buyers and shippers (not specified) .	896	—
Candy and confectionery	29,538	16,546 ¹
Cigars and tobacco	17,728	13,319 ¹
Carpets and rugs	1,238	—
Clothing and men's furnishings . . .	35,273	46,477
Coal and wood	24,466	16,255 ³
Coffee and tea	5,351	—
Crockery, glassware, and queensware .	2,538	—
Curios, antiques, and novelties . . .	2,735	—
Delicatessen stores	3,031	—
Department stores	8,970	—
Drugs and medicines	67,575	48,463
Dry goods, fancy, and notions	65,283	—
Five and ten cent stores and variety .	4,331	—
Florists (dealers)	2,934	12,318
Flour and feed	9,469	34,451
Fruit	19,000	—
Furniture	22,209	24,131 ³
Furs	2,280	—
Gas fixtures and electrical supplies . .	1,526	—
General stores	88,059	335,472
Groceries	195,432	
Hardware, stoves, and cutlery	39,663	45,627

¹ Rated over \$1000. ² Rated over \$3000 ³ Rated over \$5000.

CENSUS 1910, VOLUME IV, PAGES 220-22	MERCHANTS, MANAGERS, AND SUPERINTENDENTS, CENSUS 1910	NUMBER OF CONCERNS LISTED BY AN ADDRESSING COMPANY
Harness and saddlery	7,541	—
Hucksters and peddlers	80,415	—
Ice	7,361	—
Jewelry	29,962	9,395
Junk	15,219	25,432
Leather and hides	2,475	—
Liquors and wine	17,736	33,301 ¹
Lumber	26,485	18,201 ²
Mills	14,694	13,129
Music and musical instruments	5,222	14,677
Newsdealers	7,075	36,812
Oil, paint, and wallpaper	6,818	—
Optician	6,284	—
Produce and provisions	29,639	—
Rags	1,975	—
Rubber goods	493	—
Stationery	5,823	9,643
Timber	765	—
Other specified retail dealers	20,383	—
Not specified retail dealers	44,725	—

Viewed functionally, the retailers of various forms differ widely in many respects, but fundamentally they are all alike in the fact that, however they get their goods, they undertake to dispense them to individual consumers in the quantities, of the qualities, at the time, and in the place that suit the customers' habits or convenience. This they attempt to do under competitive conditions and hence at prices which tend to represent the sum of costs of the goods and of the services rendered, and the combined competitive profits of makers and distributors.

¹ Rated over \$1000.² Rated over \$5000.

In any given case of merchandise in process of distribution, each of these merchandise functions and each of the other essential ones may be rendered in one or in several steps, and they may all be performed by the prevailing types of functionary. In that case the retailer will be clearly designable as "regular." He does not attempt to eliminate any of the generally accepted services, nor does he attempt the use of any usual methods for reducing the costs of these. He leaves all the producing functions to producers, and all the wholesaling and jobbing functions, respectively, to the organizations customarily performing them. He does not even infringe on the services of the banker or the assumer of risks, and he renders with fidelity all the services called for by exacting customers. The regular retailer, as a matter of fact, performs more nearly a complete list of distributing functions than any other member of the distributing mechanism. When he is operating with full "regularity" he performs at least some parts of every one with respect to some portion of his stock, and in the case of some lines the combination of functions performed is complete.

Needless to say, in many lines of business, few absolutely purely and completely regular retailers still exist. Some eliminate services commonly rendered by their competitors. Others buy through unusual channels, thus making some saving. Others, again, attempt to sell their goods under brands which they themselves control. Others pool all or part of their activities with similar concerns, and to that extent operate as joint enterprises. Some, by virtue of mere volume of purchases, are able to

do all or most of their business on jobbing terms. Some release control, or even ownership, of their business to centralized concerns with large capital, while others attempt to do all or part of their selling by mail order. And in a few cases, even consumers themselves have combined their purchasing power and do retailing for their own benefit. From whatever cause or causes, the fact remains that few retailers still continue to buy everything from jobbers, and sell everything to household or individual consumers, thereby rendering identical services and performing standardized functions for their whole stock.

—Such retailers as may still be classed as regular are thus seen to be in competition with various other forms of retailer, who are performing marketing functions which in some way differ from the complete, regularly performed complex services the cost of which is covered by the competitive retail price charged to the consumer. And each type of retailer who modifies the standard combination presumably gives to the consuming public only such portion of the savings effected by the modifications as competition by the regular trade and by other amenders of it makes necessary. The prices charged by the department stores, chain stores, mail order houses, manufacturers' or wholesalers' retail branches, or other so-called irregular retailers, do not reflect accurately the effect of the modified method upon the cost of distribution. Mail order prices (delivery costs and all other factors considered) frequently are not any lower than regular retailers' prices. Most department stores have a higher percentage cost of

doing business than their “regular” competitors, and many compete successfully with small stores in certain lines only because of more rapid turning of stocks. With all the modifications of the system, the general level of retail prices depends on those of goods distributed through the channels which have earned the title of “regular” because they are supposed to be made up of the types of concern organized for the performance of the marketing functions in an orderly and economical fashion.

Other Distributors

What has been said concerning the breaking up of established habits of retailers is in a large measure true also of wholesalers in merchandise of Class C. Brokers, commission houses, wholesalers, jobbers are continually re-combining the services they perform, or altering their methods of securing or disposing of stock. Wholesalers control or purchase factories; some even control or actually operate retail establishments. Others, recognizing the meaning of the changes in retail organization, have modified their services to suit the new conditions, as in the application of the drop-shipper idea to the supplying of certain dry goods lines to department stores of smaller size. Manufacturers, on the one hand, and retailers on the other, have also entered the wholesaler's field either with their own wholesale branches or with separate concerns which they control.

Conspicuous in this overlapping of fields is the use by each of these successive functionaries of direct appeals to

consumers, by means of advertising based on final purchase by brand. This further breaks up whatever correspondence ever did exist between the marketing functions and the organization of the marketing mechanism. The ultimate end of really successful brand exploitation is the integration of distribution. The retailer successfully advertising a brand sooner or later finds his only security of supply to be in the actual ownership of sources for his merchandise, even back to the factory. The manufacturer, in many cases, finds it impossible to get from the regular distributing system the attention he feels that his goods deserve when his brand becomes well known and the demand for the goods brisk. The wholesaler owning a brand also finds the forces of integration working, but in his case they operate both toward retailing and toward manufacturing.

It is by no means clear that the "regular" system of marketing is in all respects commendable or necessary. Indeed, it seems to be a prerequisite to any constructive reasoning about marketing to assume, and to adhere closely to, the position that no feature of the present mechanism is inviolate. It is hoped that the following discussion of marketing by functions instead of by the successive steps in the established mechanism will make it possible to discuss in somewhat clearer fashion the question whether the hope of advancement in marketing methods and the reduction of marketing costs lies in the elimination of distributors or in the modification of the essential functions for the performance of which these distributors have grown up.

COLLATERAL READING

P. H. Nystrom, *Economics of Retailing*, Chapters IV, V, XII, XIII, XIV, XVI, XVII, XVIII, and XX.

P. T. Cherington, *The Wool Industry*, Chapters IX, XV.

P. T. Cherington, *Advertising as a Business Force*, Chapters VI, VII, and VIII.

P. T. Cherington, *First Advertising Book*, 1916, Chapters VI, VII, and VIII.

QUESTIONS AND PROBLEMS

1. Define accurately the following:

- A department store
- A chain store system
- A mail order retailer
- A regular retailer

2. How many wholesale houses in each principal line are there in your community?

3. How many traveling salesmen (from out of town) for wholesale houses "make" your town in principal lines of trade in the course of a month? How long do they stay?

4. Do the merchants of the town buy more or less by mail and telephone order than they did five years ago?

5. Is mail order purchasing by consumers in your community increasing?

6. What are local merchants doing to combat mail order competition?

7. What percentage of the dry grocery sales of high-grade, medium, and low-grade merchants in your community are being made to persons actually coming to the store, as compared with telephone orders? Are these percentages increasing or decreasing?

CHAPTER IV

MARKETING FUNCTIONS AND FUNCTIONARIES

DIRECT sale from original producer to final consumer as distinct from sale through a commercial mechanism has previously been shown to exist still as an important feature of commerce. This type of sale has been made increasingly difficult and less satisfactory, however, by nearly all of the characteristic modern conditions of production and consumption. The elaboration of demand, in itself, constitutes a serious handicap on direct sale. For example, in the case of fresh foods, when demand is dependent entirely on the existence of a near-by supply of fresh foods, no commercial mechanism of any consequence is necessary. But when, by virtue of expanded transportation facilities, it becomes possible to offer fresh foods from a distance both before and after those locally produced are available, it is difficult to see how direct sale can be expected to handle all the business effectively.

Similarly, on the side of production, the development of large-scale operation has lessened the effectiveness of direct sale and increased the dependence on some form of commercial mechanism. More often than not, the volume of production which can be carried on most effectively in any given factory or other production unit is larger than can be sold economically by direct methods. Moreover, the minimizing of the restrictions

on the sale of a product formerly imposed by distance, due to the reduction in both relative and actual costs of transportation, has made the complete localization of markets for large-scale producing units as difficult as it is undesirable. The fact that a manufacturer of shirts in St. Louis can sell his product in Pittsburgh almost as cheaply as he can in St. Louis, and also as cheaply as a Pittsburgh manufacturer can sell them there, increases the incentive to market expansion. If there were no other advantage to be gained, expansion of the market certainly leaves the manufacturer better protected against local variations in demand than he would be if his product were all sold in his immediate vicinity. In addition to this protection, however, the widening of his reputation unmistakably adds to his good will, and the multiplying of his markets puts him in a safer position with respect to competition.

Before entering upon a detailed discussion of the mechanism which has grown up for the conduct of indirect sales, certain general facts concerning modern conditions of production and consumption seem to require restatement.

1. The factory system, or some kindred form of large-scale production, may be assumed to exist in most lines of production activity. There is, to be sure, a sacrifice of a large part of the personal element in both production and distribution of merchandise, but the compensating gain is an economy of the combined activities of production and consumption and, therefore, a substantially widened use of products.

2. The limits of the expansion of large-volume production in any given industry are not set by a lack of any of the essential elements of production. In most cases there is obtainable an

adequate supply of capital, labor, equipment, and power for the operation of a unit of almost any conceivable size.

3. Production enterprises are at liberty to work out their scale of operation on the basis of the most efficient or profitable scale of production, or the most efficient possible scale of distribution, or the most satisfactory combination between these two. The problems of most efficient production are essentially problems within the walls. The problem of securing the most efficient distribution is mainly a problem of adjustment to conditions outside the walls.

4. In few, if any, cases is it possible under modern conditions to solve a problem in merchandise distribution purely on economic grounds. Social influences, historical influences, physical influences, and, more especially, accepted customs enter to modify the application of economic principles in any specific case.

5. The economics of merchandise distribution is a field which is still largely neglected. Indeed it is extremely difficult to develop a restatement of economic principles based on a sharp line of distinction between production and consumption, which gives due consideration to the intricacies of merchandise distribution coming between production and consumption and partaking of the nature of each. For example, when wheat went to the mill and from the mill to the home for the making of bread, the problem was a comparatively simple one of relations between producer and consumer. Under modern circumstances, however, when the wheat may be sold to the local elevator company, and then to the terminal elevator company, and then to the grain department of a milling company, before it reaches the flour mill, the problem of dividing sharply between production and consumption is very much obscured. In the same way, the distinction is difficult to make with certainty in the case of the flour after milling. If the flour is sold to a jobber, then to a wholesale grocer, and a retailer in turn, and is finally bought by the consumer for home baking, certain generalizations about the relation between production, consumption, and distribution may be made safely; but if, on the other hand, the flour should go either from the mill direct or through a jobber to a baker for remanufacture into

bread, and from the baker to the retailer, and thence to the consumer, it raises a serious question whether the generalizations thus made still apply.

6. The costs of merchandise distribution through the mechanism now existing more often than not equal the cost of production even if they do not exceed it. Thus far, there has been no adequate basis for decision from an economic point of view as to which of the elements of cost in the distribution process are necessary, which are reducible, and which are capable of elimination.

7. The lack of an adequate body of scientific analysis of the phenomena of merchandise distribution probably is the chief cause of the general suspicion of the economist on the part of the business man, just as it is also the chief cause of the economist's lack of sympathy with the methods of the business man.

8. These statements lead us to the conclusion that any adequate presentation of economic principles as they occur in the problems of merchandise distribution must necessarily involve a consideration not so much of the forms of the mechanism as of the functions which these forms have grown up to execute. These forms must be regarded as merely the means for the performance of functions made necessary by the conditions of living and the equipment for living which modern inventions, such as steam and electricity, have made possible.

With these general statements in mind, it becomes clear that the future expansion of large-scale industry depends, to a large degree, not so much upon the inherent problems of production and consumption as upon the relation between these and also upon the relations of these with a complex group of phenomena of distribution. It is clear also that if the effects of this interdependence are to be accurately dealt with, they will necessitate a careful avoidance of confusion between the functions which characterize them and the functionaries which

have developed for the performance of these functions. For instance, the retailer, and indeed the whole mechanism for supplying merchandise for retail sale, is a device for performing certain recognizable functions. Again, the wholesaler and the equipment for the wholesaling process are forms devised for the execution of certain groups of services. The services in each case are essential and permanent so long as the conditions of production and consumption remain essentially unchanged. If the processes of distribution are to be adequately treated from a purely economic viewpoint and separated from such non-economic influences as mere habit or custom, it will be necessary constantly to get back of forms of distribution to the actual functions of distribution, for the performance of which they have been set up.

In the case of merchandise for remanufacture (class A) the transfer of ownership takes place for the purpose of making possible the production of some new form of merchandise. If, therefore, we recall the statement of the underlying task of marketing as being the transfer of ownership of merchandise in exchange for what is mutually regarded as an equivalent by both former owner and new owner, it is at once evident that the nature of the motives prompting the change is in this case essentially different from those in the case of merchandise for individual consumption (class C) where utility is mainly concerned with value in use. In many respects also the motives prompting the exchange are different from those prompting exchange in the case of merchandise of the equipment type (class B).

In the case of merchandise of class A, the main task of the distributing mechanism is the performance of the essential marketing functions in such a way as to meet not merely the uncertain desires of the consumer, but also the essential requirements for the production of other merchandise, which in turn may be sold at a profit. In the performance of this task, therefore, there is always present the problem of the relations between the price at which the merchandise in process of marketing may be delivered and the price at which it is likely to be possible to market profitably the product which is to be made from it. Into the problem of the relationship between these two prices there is almost invariably injected a large number of incidental complications, such as, for example, those which are due to the necessary lapse of time between the delivery of the raw material and the sale of the final product.

Largely because of this direct relationship between the product marketed for remanufacture and the product to be made from it, a very substantial amount of the marketing of class A, as has already been said, takes the form of direct sale either on periodic contracts, where all the conditions are arbitrary and may be renewed or modified from time to time, or on contracts awarded after competitive bidding, where all the terms of sale and delivery are fixed except the price, or as a result of individual negotiations and bargaining.

The marketing mechanism found conspicuously in the sale of merchandise of class A is relatively simple. Brokers who have some facility in bringing buyer and seller together, who have more than ordinary knowledge

of stocks and needs, or who have uncommon access to sources of or outlets for material are perhaps the most common type of device existing for facilitating the marketing functions in this class. In the case of gradable commodities, the sale of which upon exchanges or through future trading organizations is large, spot transactions through exchanges, in which all the terms except price, quantity, and delivery are standardized, also are common and might be designated as sales through mechanism.

In the case of merchandise of class A, the marketing functions have previously been described as including the four merchandise functions: assembling, grading, storing, and moving; the two auxiliary functions: financing, and the assumption of risk; and to a minor extent the functions concerned with the conditions under which the final transaction is conducted. The brief statement of the fundamental conditions of production and consumption, in the case of merchandise of this type, may serve to make clear some of the principal characteristics of the marketing functions involved. On the one hand, the producer of materials has his problems to a large extent shaped by the fact that in most instances the scale of production is smaller than the scale of consumption. On the other hand, he is confronted by the fact that the quality of the product is to a large extent beyond his control, while the consumer of his product (the manufacturer) is in most instances obliged to insist upon a large degree of uniformity and quality. The task before the producer of merchandise for manufacture, as it occurs in typical forms, may be summed up, therefore, as being of three principal parts:

1. To get from small-scale operation and from conditions beyond his control a supply of goods of salable qualities.
2. To put this merchandise into trade at the most profitable grading.
3. To secure for it the largest possible return.

In contrast with this task the manufacturing consumer of raw materials is confronted with the problem of selecting from the offerings of an uncertain producing system the exact sorts of raw materials he requires and purchasing these in the quantities necessary to keep his mill in operation without any undue accumulation of costs for storage. Moreover, he is obliged to make sure that such supplies of raw material as he may require shall be on hand promptly when required, and shall not accumulate when they are not needed. In other words, his problem is seen to be essentially the reconciliation of maladjustments between production and consumption with respect to quantity, quality, time, and place. The manufacturer's problem is also very greatly circumscribed by the fact that the motive prompting him to purchase has little to do with the actual utility of the goods, but is almost wholly concerned with the question whether having changed their form he can dispose of the products made from them at a profit.

If all the requirements of manufacturing consumers of any given line of merchandise could be pooled and all the supplies of raw material could be brought together and brought into contact with these pooled demands, there would still be variations in price from time to time or from season to season. But, on the whole, prices would accurately reflect the actual conditions surround-

ing production and consumption and the extent to which maladjustments between them were corrected. This condition, however, presupposes much more accurate and widespread knowledge of conditions than is generally available in any except perhaps a very few types of merchandise. It would also presuppose a much wider diffusion of skill in marketing and a much greater agility in meeting variable conditions than are commonly to be found now.

Instead of the perfected adjustment between production and consumption, thus suggested as ideal, both the producer and the consumer of merchandise of class A find it advantageous to try to modify both supply and demand, either by purely commercial methods or by physical manipulation, or both. Of the commercial type, perhaps the most important example is to be found in the case of speculating, trading, and particularly in attempts to corner or monopolize the available supply. The whole system of leases and royalties commonly found in the sale of minerals still in the earth is another attempt to accomplish the same end by commercial methods. On the physical side, both supply and demand are substantially modified by the uses made of actual restrictions on production, by grading, by warehousing, and by purchasing in quantity. After all the efforts to modify supply and demand have been exhausted, it usually becomes manifest that for practical purposes they neutralize each other, and that what is actually accomplished by these efforts is essentially the same as what is accomplished when the purpose of the whole mechanism is primarily the preser-

vation of conditions under which both supply and demand may have free expression.

The inherent properties of the commodities sold determine in a large measure the nature of the mechanism set up for permitting the influences of supply and demand to have free play. For example, the physical properties of wheat make it particularly favorable for handling through a highly organized system of storage and trading, which results in the entire supply being virtually in sight at all times, and which also causes most of the transactions taking place in it to be conducted on contract. Cotton, on the other hand, because of the lack of ease, from a physical point of view, with which it may be put into storage and taken from it, has developed an entirely different group of relations between the speculative trading, and spot trading. Similarly, such commodities as tobacco, sugar beets, and, to a certain extent, wool are incapable of accurate grading for future contract trading on a basis similar to that employed in the case of either wheat or cotton. They are, therefore, more often bought in either specific lots or by type. Cotton yarn furnishes an example of another commodity for manufacture which is bought and sold on conformity to type rather than either by the sort of contract prevailing in the sale of wheat and cotton or even by specific lots. Coal and iron ore, on the other hand, when bought at the mine, or more specifically in the mine, call for an entirely different method of reconciling the inequalities between production and consumption. The typical form of sale in the case of these is by the lease and royalty contract.

The characteristic features of the commercial mechanism for conducting such transactions in merchandise of class A are comparatively simple. As has been pointed out, they are in most cases devices whose underlying task it is to guarantee as far as possible the free play of the price-making influences of supply and demand. A mere listing of the type of marketing device commonly employed in this type of sale serves to make clear the comparative simplicity of this underlying task. Some of the more conspicuous devices are as follows:

1. Brokers.
2. Commission houses.
3. Merchants.
4. Elevators, warehouses, and other storage equipment.
5. Bankers.
6. Underwriters.
7. Auctions.
8. Future trading facilities.
9. Lease and royalty contracts.

Throughout this class of merchandise, as well as the others, it is manifest that the mechanism employed does not coincide with the underlying functions performed. In many cases the essential functions are the same, or are not materially modified by the differences in the physical properties of the merchandise sold. This lack of correspondence between functions and functionaries is also made evident by the fact that the functionaries are constantly in process of change, in both organization and methods of work, while presumably the essential functions cannot have undergone corresponding changes even if they have not actually preserved all of their fundamental characteristics.

To sum up, it may be said that the essential functions involved in guaranteeing free play of supply and demand in the case of merchandise of class A coincide exactly with the list of merchandise and auxiliary functions with which this discussion started.

Merchandise :

Assembling

Grading

Storing

Moving

Auxiliary :

Financing

Assumption of risk

Before closing these general observations concerning the marketing of merchandise of class A, it may be well to repeat again the statement made at the outset, — that the central task of the marketing process to which all of these functions are subsidiary is the transfer of ownership of merchandise in exchange for what is mutually regarded as an equivalent both by its former and by its new owner.

Much of what has been said concerning the equipment which has been developed for handling merchandise of class A is true also of the mechanism for merchandise of class B. There are, however, numerous important differences in detail, most of which grow out of the essential difference between the underlying task in the marketing of products of these two types.

The essential undertaking in the marketing of merchandise of class B is the providing of equipment to meet some detailed and specific need. This usually

involves very close adjustment of the equipment delivered to the particular task in hand, an adjustment which is in many cases so close as to call for expert knowledge or even scientific training, in addition to an appreciation of the purely commercial requirements of the case. Moreover, the delivery of merchandise and the rendering of the services of adjustment must all be performed at a cost having a direct relation to the earning power of the equipment. This is in direct contrast with the conditions set in the case of class A merchandise, where, as has been pointed out, the essential task is the meeting of the requirements of the manufacturer for his raw material in such a way as to make it possible to market profitably the product to be made from it.

The forms of direct sale as well as of sale through the commercial mechanism reflect some of the underlying differences between the marketing tasks; for example, the continuous and fairly close agreements between railroads and certain manufacturers of railway equipment, such as formerly existed, were a direct result of the nature of the marketing problem involved in the selling of such commodities as steel rails, locomotives, or steel cars. In the same way, the relationships between certain manufacturers of such materials as cement and the large consumers of these materials have been very close, even when they did not interlock. Again, even when neither continuous agreement nor periodic contract exists, there are to be found very frequent cordial relationships or even expressed or implied understandings between contractors and those selling building materials, or machinery, or other forms of equipment.

The field of direct sale of merchandise of class B has been perhaps the most fertile one for the growth of interlocking directorates, price agreements, and similar attempts to minimize the uncertainties of trade.

Aside from the large volume of direct sale for merchandise of this class, there is a substantial volume of business conducted through a commercial mechanism. Jobbing contractors, such as are to be found in the sale of many lines of railway equipment, both steam and electric, are perhaps on a dividing line between direct sale and sale through mechanism. Supply houses, such as exist in many parts of the electric trade, or in the trades of building materials, and more completely standardized forms of machinery are clearly middlemen and therefore of the nature of a commercial device. In the case of the manufacturers of equipment highly protected by patents, and particularly when the equipment calls for expert knowledge for keeping it up and special facilities for repairs, the providing of spare parts, and of supplies, the tendency has been to set up special selling organizations which are either actually or nominally operated independently of the actual producing process. Cases in point are the Western Electric Company, engaged in the distribution of telephone equipment, the sales departments of certain of the typewriter companies, and the distributing organization of various makers of machinery, such as printing or textile machinery.

The typical marketing problems of classes A and B are as serious as those of class C, even though they may be in outward form somewhat less complex. It is necessary in comparing them, however, to bear in mind

the frequently repeated fact that in the last analysis in the case of merchandise of class C the price is determined by utility or value in use rather than by the value of the product to be made of it. On this account, it becomes evident that the conditions under which the sales of merchandise of class C are made may become the most important and even the most costly of all the tasks of distribution. It is in this class that there are to be found most of the generally discussed efforts to change the organization of the distributing mechanism. Some phases of these will be fully treated in later chapters. Suffice it to say here that with the elaboration of activities in this class the devices for effecting distribution have become heavily incrustated with features which, while not economically justifiable for all types of customers, have real value to some of them. It is only in very recent years that the efforts to free the distributing system in this class of some of its costly superfluities has taken really constructive form. The blind efforts to "eliminate" some "middleman" seldom have yielded the good results hoped for. The better selection and adaptation of the supplementary services rendered to the needs of various types of customers have accomplished real savings. New forms of mechanism are emerging. The old types of organization are being materially modified. The old terms "wholesaler" and "retailer" now find themselves qualified and subdivided; and the changes, in the main, reflect a closer adaptation of forms of functionary to functions performed.

Finally, in discussing the relation between the

functions of marketing and the forms which have been developed for conducting them, it is noteworthy that in all three classes practically every phase of the distribution mechanism is in a state of constant conflict and instability. In almost every instance a continuous process of reconstruction is going on. A few points of general application emerge from these conditions of chaos which are equally applicable to the conditions underlying marketing of all three classes. Among these, the following may be mentioned:

1. No one form of mechanism ever has been able to demonstrate the fact that it is the one best form of merchandise distribution. This is equally true of the simplest as well as the most elaborate type of mechanism. Even a slight change in the conditions involved in the marketing problem entirely alters the balance of advantage existing in favor of one form or another.

2. In the long run, the success of any marketing device depends directly on the degree to which it performs the necessary marketing functions without waste, and in the interest of the consuming public rather than in the interest of either distributors or producers.

3. There are very few if any secrets of any material consequence any longer in existence concerning either the mechanism of marketing or the methods of its operation.

4. The costs of conducting marketing operations are becoming standardized to an increasing degree.

5. No really constructive idea in the marketing of merchandise can be successfully monopolized for any material length of time.

6. Commercial habits and customs and even conservatism and inertia will in time give way before economies and increased effectiveness of operation in the distribution of merchandise. The forms of the distributing mechanism may therefore with confidence be counted on to adjust themselves to the purely economic elements of the distribution problem.

If these facts can be established or if they are accepted, it follows that any attempt to state the present problems of merchandise marketing or to forecast the course of its future development involves the necessity of fixing the attention not upon the forms or devices which have been developed and which must be regarded as temporary and external features, but, rather, upon the functions of marketing as the permanent elements of the problem

COLLATERAL READING

A. W. Shaw, *An Approach to Business Problems*, Introduction, Chapters I and H.

Alfred Marshall, *Industry and Trade*, Book I, Chapter VII.

QUESTIONS AND PROBLEMS

1. What is the wholesale grocer's customary "mark-up" on flour, sugar, tea, coffee, and canned goods?

2. What would be the best arguments for and against an even mark-up of 12 per cent for all goods for a wholesale grocer, assuming that this would give him a satisfactory net profit?

3. Is the wholesale grocer's service essentially identical or does it differ in fundamental character in the case of bulk sugar, nationally advertised package sugar, tea, coffee, canned goods, package goods branded with his own brand, similar goods with "national" brands, dry groceries, matches? Answer in detail.

CHAPTER V

THE ASSEMBLING FUNCTION

Adjustments of Quantity

THERE are in the United States about 6,000,000 farmers, most of whom grow wheat in some quantity, large or small. Of the 700,000,000 bushels of wheat produced in normal years about 100,000,000 bushels is exported chiefly through five or six ports, and most of the remainder is milled into flour by 5000 millers, and finally consumed by 110,000,000 people who have bought it from 300,000 retail grocers or general stores as flour or as bread baked by 14,000 bakers.

Each step in the series of marketing cycles involves the commercial distribution of wheat on a basis which is competitive and therefore presumably not unduly costly. But each step is performed with the wheat, or the flour made from it, handled in a quantity the size of which is determined by some reasonably fixed factor. This factor determining the size of the sale unit for a commodity at successive stages in its distribution may be the result of mere custom, as in the case of those ancient gropings for a convenient measure which resulted in the adoption of the bushel or the gallon, or the slightly more orderly and reasonable measures of the metric system. Even the units resulting from custom are only

one feature of the assembling function, although an important one which often involves no small amount of expense. The units of size employed in commercial transactions often are found to have some physical basis, such as the lifting power of a man in case manual labor must be applied to it. Again the unit may be the result of transportation practices, which, for example, determine the unit of 8000 bushels for a "boatload" of wheat, or 1000 bushels for a carload. In some instances the unit is fixed by the convenience of those advancing money on the goods, or perhaps by the assumers of risk. In similar fashion, bags, bales, boxes, and in some cases even natural units (as bunches or stems of bananas) have become accepted units for purchase and sale of commodities at various stages in their journey from producer to consumer. Into these units the product to be handled must be cast if the distribution is to move smoothly and in the most economical fashion. The physical movement, the financing, and the actual purchase and sale of the goods may in a large measure depend on the skill with which they have been assembled into quantities or units convenient for distribution.

The assembling function derives added importance as a feature of distribution from the fact that the units of economical production and of convenient consumption seldom are the same and that neither of these may coincide with the suitable unit as units for distribution. A "carload" of "20 head" of steers makes a convenient distributing unit at a market where "feeders" are bought. But there are no ranges and few farms on which steers can be grown most economically in lots of

that size, and for an efficiently operating packing house a carload of steers is only a few moments' supply.

In connection with manufactured products of all kinds such terms as case-lots, carloads, dozens, gross, barrels, tanks, serve to illustrate the importance of this matter of assembling and subdividing quantities as a part of the process of merchandise distribution. Any single purchaser, for example, who can advantageously handle a tank-car full of molasses is a more economical customer to serve than twenty who would each be able to buy and sell a few barrels each, and still more economical than five hundred each of whom could only buy and sell a few gallons. And it is not unusual for the commercial savings represented by large purchases of this kind to be so considerable as to make profitable a specialized business in subdividing lots of merchandise bought in quantities large enough to offer the producer a satisfactory return at only a relatively slight advance over this cost of production. Conversely, in such commodities as fleece wool of the farm section of the country a profitable business may be conducted in the assembling of small lots of wool to be sold in block at a relatively small mark-up. This is one of the functions for the performance of which the "middleman" grew up. Blind rebellion against this fact in distribution has been characteristic of the history of business.

A recent writer¹ in discussing the early development of middlemen in England says:

¹ Middlemen in English Business. Ray Bert Westerfield. Introduction, pp. 126-129. Quotation used by permission of the author, the Connecticut Academy of Arts and Sciences and the Yale University Press.

“The mercantile and trading class has been subject to much opposition from both the producers and the consumers. National and municipal legislation joined with social usage to make the way of the middleman undesirable. The church and guild presumed to do his functions in a collective manner and render him unnecessary. Writers on social and economic questions were usually adverse to his interposition between producer and consumer. This was more particularly true of the medieval and Continental writers. The theory that middlemen were an unproductive and therefore an undesirable class did not gain much acceptance in English economic theory. Petty in 1662 was of the opinion that a ‘large proportion of these . . . might be retrenched, who properly and originally earn nothing from the Publick, being onely a kinde of Gamesters,’ yet he recognized their services in being ‘veins and arteries, to distribute back and forth . . . the product of Husbandry and Manufacture.’¹ Locke also regarded middlemen ‘Brokers’ as inconsistent with the public good,² because they retarded the circulation of money. But these opinions had little effect and wasted in the eighteenth century before the tenet that the employment of population and labor was the fundamental enriching power in a nation,³ and that therefore goods ought to pass through as many hands as possible.⁴ This theory, though resting on the economic fallacy of ‘making work,’ did favor the existence of middlemen and carriers, but hindered any change of organization which tended to reduce the number of middlemen or forced a change in their occupation. For instance, the introduction of the turnpike, stage-coach, and canals was opposed by the vested interests. The doctrines of the period were therefore not opposed to the rise and perpetuation of middlemen.

“Omitting the personal catering to human whims and fancies, the only justification which a middleman can offer for his existence is that by his intervention economies are realized which at least equal what he extracts from the trade for his expense and profits.

¹Petty, *Treatise of Taxes*, 11.

²Locke, *Works*, 11, 15.

³Palgrave, 1, 87; Defoe, *Eng. Tr.* 11, Chap. XXXVIII.

⁴Defoe, *Com. Eng. Tr.* 11, 178, Chaps. XXXVII and XXXVIII.

The test of this equality in a competitive market is determined by the effect his intervention in the handling of a ware has on the price of that ware. If he performs a real service to the trade the price is lowered; if he does not perform such a service the price is raised and he is eliminated. In actual trade the inertia of habit and the power of monopoly may long continue him as an unprofitable servant. In a state of widely dispersed industry, with little local specialization, with poor means of communication and transportation, and with seasonal activity, there is excellent opportunity for the rise of the middleman class. Goods must be bought in small lots from domestic producers, and they must be sold to distant consumers in small lots. It is not profitable for each producer to carry his small product to the distant consumer; the cost of carriage and waste of time prevent. Nor does he know nor have the means of learning where consumers may be found. On account of the seasonal activity of both production and carriage, warehousing during a part of the year is necessary. Where such conditions exist a middleman may assume the function of buying from the many producers, warehousing the collected purchases, specializing in knowing the mutual wants of consumers and producers, and carrying to the distant consumers. Add to these conditions, the circumstance that foreign trade was practically limited to a few ports and was there concentrated in the hands of a few privileged merchants, and you have a presentment of the conditions existent under which the orthodox middlemen class arose. As a functionary the middleman was necessary and useful: he effected economies that reduced prices to consumers and justified his intervention. As the century progressed this class increased in numbers, efficiency, and degree of specialization. The increase in the volume of trade was both cause and effect in respect to this increase.

“But the middleman tends, by the development of his own efficiency, to eliminate himself from trade. He does this in several ways: as a speculator, the risks of trade are assumed by him and he specializes at reducing the very ignorance upon which speculation rears itself. He introduces better communication and cheaper transport; but this enables the producer to discover his consumers

and carry his produce himself. These improvements make possible mass-productions and quantity buying, traveling salesmen and mail-order business. Business is done on a bigger scale, capital is concentrated in fewer hands, and industries are integrated. The economic dependence of the producer on the middlemen comes to jeopardize the producer's business by separating him from the market. The producer seizes the opportunity of dealing directly with the consumer, appealing to him by trade marks and trade connections, learning more truly the nature of the demand for his goods, and gauging better the production of his mill. But it is apparent that the system of integrated industries was not possible until the domestic workshop had given way to the factory and production was done on a massive scale. That era was introduced by the Industrial Revolution. Until that time the tendency was for the middleman to increase in numbers, efficiency, and specialization. Since that time the economics of large production and wide distribution and the improved means of production and communication have caused a counter movement and tended to break down the orthodox system of middlemen.

"The introduction of the middleman into economic life had a most profound influence in the social history of mankind. Instead of local self-sufficiency and separation, a broad economic interdependence and community of interests arose. A competitive system supplanted the medieval direct exchange, public market, fixed-and-just-price system. Supplies were equalized in times and places, and made less dependent upon the accidents of weather. Economic life acquired a speculative quality. The modern categories of economics arose. Business was born."

The assembling of diverse kinds or types of merchandise for purposes of economy or convenience is another phase of the assembling function. The books of a western wholesale general dry goods house show eighty-one different lines of standard goods carried at all times. If seasonal and occasional lines, and the various prices and qualities of both regular and occasional lines are

counted, the same house is estimated to carry 250,000 different kinds of goods. In the same way, if all grades, sizes, and prices are counted, the ordinary grocery or drug store carries from 3000 to 5000 separate items, and the stock of a department store with 50 to 150 departments would include many thousands.

It is evident, therefore, that of the services rendered by the successive functionaries in the distributing mechanism that of assembling (or dispersing) merchandise of one kind into suitable commercial lots, and the accompanying function of bringing together diverse lines for easy and profitable purchase and sale, are among the most important of all. The very existence of trades embracing goods from many sources, such as are found in grocery, drug, dry goods, or hardware stores, reflects the fundamental character of this phase of the assembling function.

The basis for the various combinations of lines is not always clear. Shoe polish, ink, brooms, candy, stationery, and many other lines do not follow any one trade in seeking an outlet, but, on the whole, for merchandise for individual or household consumption, use determines the combination. Most of the articles commonly found in a grocery store are for use as food; the others are closely allied articles for household use—cleaning materials, fruit jars, and the like. Similarly, most of the hardware lines are articles for household or building equipment, and even a drug store still carries some drugs.

Not only are the dividing lines between trades not always clear, but each of these commonly encountered

functionaries shows a marked tendency to change in this respect. Some of the old, generally accepted lines are badly broken. A store which adds "gifts" to its line of drugs is no longer the same old apothecary shop. In fact, with soda fountains, sandwich bars, hot chocolate boilers, candy and cigar counters, phonograph record demonstrations, and other modernities, the American drug store is practically smothered with sundries. The semi-professional character of drug dispensing makes it seem probable that these purely commercial adjuncts would not have been added if the sale of drugs had remained profitable. This recent group of changes in the American drug business makes it clear that use alone cannot be counted on to determine what lines are to be assembled for joint sale, and that whatever the basis is, it is unstable in at least some trades.

This problem of assembling lines and quantities for convenient purchase, while it underlies much of the structure of modern distribution, cannot wisely be considered as solely a characteristic feature of the modern distributing mechanism. Even before steam transportation so greatly increased the fluidity of commerce, the assembling function expressed itself in highly organized forms. It is not necessary to go back to medieval or ancient times for a most interesting instance is to be found in the fairs which thrived in England and on the Continent for several centuries, and still are conducted in a few places. Daniel Defoe's description of the Sturbridge Fair is often quoted. It may well be cited here as a reminder of the per-

manence of the assembling task as a part of merchandise distribution.¹

“Having been at Sturbridge fair when it was in its Height in the month of September, the Year before I was at Newmarket, I must say, that it is not only the greatest in the whole Nation, but I think in Europe; nor are the Fair at Leipsick in Saxony, the Mart at Frankfort on the Main, or the Fairs at Nuremberg, or Augsburg, reputed any way comparable to this at Sturbridge.

“It is kept in a large cornfield, near Casterton, extending from the side of the River Cam, towards the Road, for about a half a Mile square.

“If the Field be not cleared of the Corn before a certain day in August, the Fairkeepers may trample it under-foot, to build their Booths or Tents. On the other hand, to balance that Severity, if the Fairkeepers have not cleared the Field by another certain day in September, the Ploughman may re-enter with plough and Cart, and overthrow all into the Dirt; and as for the Filth, Dung, Straw, etc., left behind by the Fairkeepers, which is very considerable, these become the Farmers Fees, and make them full Amends for the trampling, riding, carting upon, and hardening the ground.

“It is impossible to describe all the Parts and Circumstances of this Fair exactly; the Shops are placed in Rows like Streets, whereof one is called Cheapside; and here, as in several other Streets, are all sorts of Traders, who sell by Retale, and come chiefly from London. Here may be seen Goldsmiths, Toymen, Brasiers, Turners, Milaners, Haberdashers, Hatters, Mercers, Drapers, Pewterers, China-warehouses, and, in a word, all Trades that can be found in London; with Coffee-houses, Taverns, and Eating-houses in great Numbers; and all kept in Tents and Booths.

“This great Street reaches from the Road, which, as I said, goes from Cambridge to Newmarket, turning short out of it to the Right toward the River, and holds in a Line near half a Mile

¹ Daniel Defoe. Tour of Great Britain. Vol. I. Letter ii.

quite down to the River-side. In another Street parallel with the Road are the like Rows of Booths, but somewhat larger, and more intermingled with Wholesale Dealers; and one Sidd, passing out of the last Street to the Left-hand, is a great Square, formed of the largest Booths, called the Duddery; but whence so-called I could not learn. The Area of this Square is from 80 to 100 Yards, where the Dealers have Room before every Booth to take down and open their Packs, and to bring in Wagons to load and unload.

“This place being peculiar to the Wholesale Dealers in the Woolen Manufacture, the Booths or Tents are of a vast Extent, having different Apartments, and the Quantities of Goods they bring are so great, that the Insides of them look like so many Blackwell-halls, and are vast Warehouses piled up with Goods to the Top. In this Duddery, as I have been informed, have been sold 100,000 Pounds-worth of Woolen Manufactures in less than a Week’s Time; besides the prodigious Trade carried on here by Wholesalemen from London, and all Parts of England, who transact their Business wholly in their Pocket-books; and meeting their Chapmen from all Parts, make up their Accompts, receive Money chiefly in Bills, and take Orders. These, they say, exceed by far the Sales of Goods actually brought to the Fair, and delivered in Kind; it being frequent for the London Wholesalemen to carry back Orders from their Dealers, for 10,000 Pounds-worth of Goods a Man, and some such more. This especially respects those People who deal in heavy Goods, as Wholesale Grocers, Salters, Brasiers, Iron Merchants, Wine merchants, and the like; but does not exclude the Dealers in Woolen Manufactures, and especially in Mercery-goods of all sorts, who generally manage their Business in this Manner.

“Here are Clothiers from Halifax, Leeds, Wakefield, and Hathersfield, in Yorkshire, and from Rochdale, Bury, &c. in Lancashire, with vast Quantities of Yorkshire Cloths, Kerseys, Pennystons, Cottons, &c. with all sorts of Manchester Ware, Fustians, and Things made of Cotton Wool; of which the Quantity is so great, that they told me there were near 1000 Horse-packs of such Goods from that Side of the Country, and these took

up a Side and a Half of the Duddery at least; also a Part of a Street of Booths were taken up with Upholsters Ware; such as Tickings, Sackings, Kidderminter Stuffs, Blankets, Rugs, Quilts, &c.

“In the Duddery I saw one Warehouse, or Booth, consisting of six Apartments, all belonging to a Dealer in Norwich Stuffs only, who, they said, had there above 20,000 l. Value in those Goods.

“Western Goods had their Share here also, and several Booths were filled with Serges, Duroys, Druggets, Shalloons, Cantaloons, Devonshire Kersies, &c. from Exeter, Taunton, Bristol, and other Parts West, and some from London also. But all this is still outdone, at least in Appearance, by two Articles, which are the Peculiar of this Fair, and are not exhibited until the other Part of the Fair, for the Woolen Manufacture, begins to close up: these are the WOOL, and the HOPS. There is scarce any price fixed for Hops in England, till they know how they sell at Sturbridge Fair. The Quantity that appears in the Fair is indeed prodigious, and they take up a large Part of the Field, on which the Fair is kept to themselves; they are brought directly from Chelmsford in Essex, from Canterbury and Maidstone in Kent, and from Farnham in Surrey; besides what are brought from London, of the Growth of those and other Places.

“Inquiring why this Fair should be thus, of all other Places in England, the Centre of that Trade, and so great a Quantity of so bulky a Commodity carried thither so far; I was informed by one thoroughly acquainted with that Matter, That Hops for this Part of England grow principally in the two Counties of Kent and Surrey, with an Exception only to the Town of Chelmsford in Essex; and there are very few planted anywhere else.

“There are indeed in the West of England some Hops growing; as at Wilton, near Salisbury, at Herford and Broomsgrove, near Wales and the like; but the Quantity is inconsiderable, and the Places so remote, that none of them come to London.

“Formerly in the North of England, few Hops were used, their Drink being chiefly pale, smooth Ale, which required but little Hops; and consequently they planted none North of Trent. But, as for some Years past, they not only brew great quantities

of beer in the North, But also use Hops in the brewing their Ale, much more than they did before, they all come South of Trent to buy their Hops; and here being vast Quantities brought, it is great Part of the back Carriage into Yorkshire, Northamptonshire, Derbyshire, Lancashire, and all those Counties; nay, of late, since the Union, even so far as Scotland; for I must not omit here to mention, that the River Grant, or Cam, which runs close by the North-west Side of the Fair, in its Course from Cambridge to Ely, is navigable; and that by this Means all heavy Goods are brought to the Fair-field, by Water-carriage from London, and other Parts; first to the Port of Lynn, and then in Barges up the Ouse, from the Ouse into the Cam, and so to the very Edge of the Fair.

“In like Manner great Quantities of heavy Goods, and Hops among the Rest, are sent from the Fair to Lynn by Water, and shipped there for the Humber, to Hull, York, &c. and for Newcastle upon Tyne, and By Newcastle to Scotland. Now, as they do not yet plant Hops in the North, tho the consumption there is very great, and increasing daily, this is one Reason why at Sturbridge-Fair there is so great a Demand for them, besides there were very few Hops, if any worth naming, growing in all the Counties even on this Side Trent, above 40 miles from London, those counties depending on Sturbridge-Fair for their Supply: so the Counties of Suffolk, Norfolk, Cambridge, Huntingdon, Northampton, Lincoln, Leicester, Rutland, and even to Stafford, Warwick, and Worcestershire, bought most of, if not all, their Hops at Sturbridge-fair.

“This is a Testimony of the prodigious Resort of the Trading People of all Parts of England to this Fair; where surprising Quantities of Hops have formerly been sold.

“The Article of Wool is of several Sorts; but principally Fleece Wool, out of Lincolnshire, where the longest Staple is found, the Sheep of those Parts being of the largest Breed.

“The Buyers are chiefly the Manufacturers of Norfolk, Suffolk, and Essex; and it is a prodigious Quantity they buy.

“Here I saw what I had not observed in any other County of England, a Pocket of Wool; which seems to have been at first

called so in Mockery, this Pocket being so big, that it loads a whole Waggon, and reaches beyond the most extreme Parts of it, hanging over both before and behind; and these ordinarily weigh a Ton or 2500 Pound Weight of Wool, all in one Bag.

“The Quantity of Wool only, which has been sold at this Place at one Fair, has been said to amount to 50 or 60,000 l. in Value; some say, a great deal more.

“By These Articles a Stranger may take some Guess at the immense Trade which is carried on at this Place; what prodigious Quantities of Goods are bought and sold, and what a vast Concourse of People are seen here from all Parts of England.

“I might proceed to speak of several other Sorts of English Manufactures, which are brought hither to be sold; as all Sorts of Wrought Iron, and Brass Ware from Birmingham; edged Tools, Knives, &c. from Sheffield; Glass Wares, and Stockens, from Nottingham and Leicester; and unaccountable Quantities of other Things of similar Value every Morning.

“To attend this Fair, and the prodigious Crowds of People which resort to it, there are sometimes no less than 50 Hackney Coaches, which come from London, and ply Night and Morning to carry the People to and from Cambridge; for there the Gross of them lodge; nay, which is still more strange, there are wherries brought from London on Waggons, to ply upon the little River Cam, and to row People up and down, from the Town, and from the Fair, as Occasion presents.

“It is not to be wondered at, if the Town of Cambridge cannot receive or entertain the Numbers of People that come to this Fair; for not Cambridge only, but all the Towns round are full; nay, the very Barns and Stables are turned into Inns, to lodge the meaner Sort of People: As for the Fair-people, they all eat, drink, and sleep in their Booths, which are so intermingled with Taverns, Coffee-houses, Drinking-houses, Eating-houses, Cooks Shops, &c. and so many Butchers and Higgler from all the neighboring Counties come in every Morning with Beef, Mutton, Fowls, Butter, Bread, Cheese, Eggs, and such Things, and go with them from Tent to Tent, from Door to Door, that there is no want of Provisions of any Kind, either dressed or undressed.

“In a Word, the Fair is like a well-governed City, and there is the least Disorder and Confusion (I believe) that can be seen anywhere, with so great a Concourse of People.”

When considering the distributing mechanism of the twentieth century it is worth while keeping in mind this picture of the way the distributing activities were carried on two hundred years ago. The units of production were small, the radius of distributing activity was restricted by the difficulties of transportation. But in many essentials the marketing tasks were similar. Except in rare and special cases the general fairs like this have not survived. But even to-day there are the London wool sales, the fur auctions of St. Louis, and many other temporary assembling markets conducted at intervals and bringing buyers and sellers together in a trading mood; while the great mass of business has worked out other devices for accomplishing similar ends. And the striking feature of all these devices is the fact that they are constantly changing form in important particulars, while the tasks they are set up to perform persist. The new forms are mainly the result of efforts to adjust the device more accurately to the task, as it is modified by social and economic changes.

According to any logical standard the rise of costs and the need for profits have made some strange bed-fellows in distribution. This situation raises an important question. If the old lines are to be broken up and new combinations are to be worked out, what should control the nature of these combinations? Should it be use, or the profits of the distributor; or some constructive motive like the securing of a maximum

of efficiency in distribution from the standpoint of the consuming public?

The assembling (or dispersing) function is necessarily closely allied with all the other merchandise functions. Obviously its performance frequently is closely allied with grading, storing, and moving. In fact, the difficulties in the way of completely separating the costs of this function from all the other features of distribution are baffling. The main points to be kept in mind in connection with it are its presence, its indispensable character, and the fact that hitherto it has been performed and the mechanism for its performance organized on such bases as traditional or customary units, historical practices or the convenience or profits of the functionary rather than on the basis of economy or effectiveness of operation.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book II, Chapter I.

L. D. H. Weld, *Marketing Agricultural Products*, Chapters I, II, III.

W. S. Stevens, *Industrial Combinations and Trusts*, Chapter VI.

QUESTIONS AND PROBLEMS

1. Make a list of the chief groups of items carried in some near-by or convenient

Drug store

Grocery store

Stationery store

Hardware store

Find out if possible which of these lines have been taken on during the past 5 years, 10 years, 15 years, and 20 years respectively.

2. Indicate standard producers' wholesale and retail sale units for 20 separate commodities.

3. What are the advantages of barrels as against boxes as containers for apples, and vice versa, from the standpoint of the producer, distributor, and consumer?

4. In what unit or units does a worsted dress goods mill sell its product? Why are these in use? Into what units is the cloth subsequently divided in the course of distribution?

CHAPTER VI

THE GRADING FUNCTION

Adjustments of Quality

RAW materials as yielded by the earth seldom are uniform in quality. This is equally true of products of the mine, forest, farm, or sea. Consumption of these products, particularly if they are to be manufactured, calls for some degree of uniformity. In use, the value of the different qualities produced by nature may vary widely, quite aside from their intrinsic worth. Two bushels of wheat may be intrinsically equally good as food, but if one is of a soft variety of wheat while the other is hard, the types of flour to be made from them will be radically different, and hence the two bushels will sell to different users and may sell for very different prices. A third bushel of mixed hard and soft wheat would find a still different buyer from either of the other two, if it could be sold at all; hence it might bring a very different price (probably much lower), all in the same wheat market.

It is not always easy to understand why the grading functions should affect the value of a commodity so greatly as it often does. In the case of merchandise of classes A and B (raw material for manufacture or supplies for equipment) the reasons are clearer than in the merchandise of class C. But in the cases of any one

of the classes it is sometimes a matter of surprise to find how large a premium buyers are willing to pay for a well-graded product as compared with one which is poorly graded, or not graded at all, or conversely, how difficult it is for an ungraded product to find a satisfactory market. In the sale of potatoes — a commodity difficult to grade evenly — it is commonly true that a car packed by a farmer and not skillfully graded will sell for less than a car packed by a potato shipper and presumably graded with care and reasonable conformity with accepted standards. Another classic instance of the difference between the status in the market of a graded as against an ungraded commodity is the salability and the high price of well-graded western apples compared with apples, probably equally nutritious, carelessly packed in accordance with the old and, in many respects, bad habits prevalent on New England farms. The ability to “top the market” has come to be recognized as quite as much a matter of careful grading as of production in many trades.

Compared with the cost of its performance there is none of the marketing functions which enhances the value of commodities as greatly as this one of grading. In the case of raw materials for manufactures it is frequently true that a commodity may not be usable until it is graded. The peculiarities of machine or process may make imperative the elimination of all unsuitable sizes or qualities. It is probable that the grading function in all classes of merchandise owes much of its importance to this phase of the demand made by the factory system. Indeed, the growth of the institution of

sale on grade has been attributed largely to the growth of the factory type of industry. But the employment of sale on grade and the corresponding function of grading have spread to many lines not affected by the demand for uniformity due to the use of machinery. Apparently the convenience and economy of grade sales have established for this a place among marketing functions far more important than its original use. The marketability of a product often is a factor quite as important as intrinsic adaptability to manufacture in enhancing the premium on trustworthy grading. In contrast with this great increase in the value of a commodity from grading stands the usually low cost of the grading. The grading process ordinarily is, to a large degree, mechanical and not expensive to perform. There are, of course, exceptions to this general statement such as are found, for example, in the cases where chemical tests are the basis for grading. But even in cases where the grading process is not simple, the return from its performance is large.

So important is the grading function and so necessary is it that the work be done honestly and well that it is not uncommonly the object of official control, while in some instances, as in the case of grain grading in Illinois, Missouri, and Minnesota, it is actually carried on by public officials who are heavily bonded.

The basis for grading seldom reflects the convenience of either the producer or the seller. It usually is the result of some form of demand by the buyer or consumer, whether he be manufacturer or final user. In some cases the convenience of the distributor, or the facili-

tating of distribution, has become the basis of the grading system, but this usually reflects in some measure on aggregation of desires by consumers which have a direct effect on price or marketability. The following memorandum by Mr. John C. F. Merrill, formerly President, now Secretary of the Chicago Board of Trade, quoted by H. H. Brace in his *Value of Organized Speculation*,¹ shows some features of the interaction between grading, trading on grade, production and prices :

“Up to 1891 we accepted No. 2 wheat, no matter of what variety. The wheat then produced in Iowa, Nebraska, and other sections tributary to this market was a variety incapable, by reason of its inherent qualities, of being manufactured into a high grade of flour. It was so inferior to No. 2 Red, No. 1 and No. 2 Northern Spring, that the millers bought these latter grades and let the No. 2 Spring, the grade above referred to, alone. It accumulated here to the extent of several millions of bushels. When the late William T. Baker was elected president of the Board in 1891, he, in his inaugural address, advocated the amendment of our rules so that they should provide only for the delivery of No. 2 Red and No. 1 Northern Spring. The rules were so amended by vote of the association. The effect of this was to completely stop the production of inferior wheat. So long as it was deliverable on contracts for future delivery, it of course had a good market. It sold then on that basis. The other grades always, that is, the No. 2 Red and No. 1 Spring, always sold at a premium over it, but when this delivery privilege was taken away from it, farmers stopped raising it.

“Again the No. 2 Hard Winter Turkish wheat, mainly produced in the tablelands of western Nebraska and western Kansas, northern Oklahoma and the Pan Handle of Texas, for many years was not deliverable on contracts for future sales. After a few

¹ Quoted here by permission of, and by special arrangement with, Houghton Mifflin Co.

years from the time its production in the United States was begun, it was made deliverable at 5 cents discount, later this was made 3 cents per bushel discount, and then this penalty was removed and it was made equal with the other grades. Its production thereby was increased, and now it is not only produced as largely as ever in the territory named, but also in Missouri and Illinois. . . .

“I suppose it may be truthfully said that this is a question of making a market and of destroying a market, and that such result might have been reached through ordinary merchandising channels of the millers, yet, so soon as the delivery on future contracts was affected, the production of the grain was materially affected. May we not say, then, that if it could stop the production in the one case, and increase it in the other to a very perceptible degree, that it has a pronounced influence on values? That it upholds and adds to the value of that which is desirable, that it bears down and obliterates that which is undesirable?”

From a commercial point of view certain commodities when well graded offer such distinct and recognizable advantages over lots of the same commodity not so graded as to make clear some of the reasons for the resulting increase in price. In the first place such a commodity may usually be bought on sample or on grade instead of on inspection only. This often widens its market very substantially. One hundred bales of cotton, as received by a county merchant, may include a few bales of each of ten different grades. The only market for such an assortment if ungraded would be a buyer seeking to assemble diverse lots and sell them on grade, or a number of separate manufacturers each of whom wants to buy specific grades and is willing to pick out of the lot the bales he can use. In either case the cotton must be inspected, and only those equipped

to and willing to make an inspection can safely buy the lot or any part of it. But the same lot, if graded, at once becomes marketable on grade, thereby securing a much wider market than before. The various graded bales may easily be put into lots with other bales of the same grade, and a wide range of buyers, manufacturers, and speculators is added to the possible market. Not only does grading make the market wider, it makes the market more active as well. Bidding for any given commodity, all other factors being anything like equal, will be more spirited as the market widens. Again, grading removes from a given lot of a commodity the speculative element inherent in the uncertainty as to its contents. Its purchase no longer adds to the uncertainty of market conditions the uncertainties as to what is being bought. This latter element becomes a matter of assurance and, presumably, of guarantee. A graded commodity has a definite value in exchange as well as value in use. Its market is as wide, active, and sure as it can be, and in addition to all these increases in value grading makes the merchandise a safe basis for credit or for advance of money.

In cases where a commodity in the course of distribution must, or seeks to, pass through a public auction, accurate grading is imperative. In seventeen of the chief cities of the country a large part of the fruit supply enters the market through public auctions, and in these sales trustworthy grading is essential to satisfactory sale. Most of the wool grown in Australia is used as security for money advances, and by law must be sold at auction. A result is that Australian wool, as a class,

is the best graded and best packed wool in the market. American wool, in contrast, is notoriously poorly graded and packed, and in any case of unprotected competition with Australian wools is at a disadvantage grade for grade.

In the progress of a commodity from original producer through the marketing mechanism to the final consumer several regradings may be necessary. These may be required in order to meet the commercial needs involved in the successive commercial steps. These regradings have sometimes offered an opportunity for extra profits to the distributor. Often they are of such a nature as to prevent any satisfactory tracing of costs and qualities from consumer back to producer. In some cases they are necessary; while, in other cases, they render no indispensable service, and, convenient as they may be for some phases of distribution, they could be eliminated without serious loss. From the point of view of the value of the goods to the consumer and their relative cost to him these functions are not defensible. As a whole, however, grading, or the correction of maladjustments between production and consumption with respect to the quality of merchandise, stands as the most useful of the merchandise functions.

Quite aside from the value of grading from the viewpoint of the user of the commodity in manufacture, grading has marked effects on the commodity from a purely commercial point of view. Future trading, or sale by type, is equally impossible before, and equally simple after, the commodity has had its properties established with relation to accepted standards. Storage and

the advancing of money on the commodity in its progress from producer to consumer are facilitated by accurate grading. The whole system of warehouse receipts is built up on the existence of trustworthy grades or standards and the assimilation of any given lot of merchandise to those standards. False claims and other dishonest practices are immensely more difficult when grading has been carefully done. The whole process of future trading and the existence of honestly conducted speculation markets assume a grading system as an indispensable prerequisite. These devices are more conspicuous and more highly developed in certain agricultural products like cotton and some of the chief grains. But the same principles apply whenever the commercial devices are employed in the case of other commodities. Pig iron warrants are merely standardized documents representing varying lots of pig iron graded, standardized, and stored under controlled conditions. The ease with which certain agricultural products may be reduced to a few reliable standards more than any other cause accounts for the great prevalence of highly organized trading centers and trading organizations for handling them.

By expansion these results from grading to be found in the marketing of agricultural products are found to exist in the case of many other commodities, particularly in classes A and C. Minerals, raw and partly manufactured materials, such as iron ore, copper, pig iron; forest products, such as lumber, turpentine, and rosin; and even such manufactured products for individual consumption as dried fruits, canned goods, tea, coffee,

and others pass through much of the distributing process, and in some cases even go to the final consumer on grade. And in being handled in this way results similar to many, if not all, of those to be found in cotton and grain markets occur.

COLLATERAL READING

L. D. H. Weld, *The Marketing of Farm Products*, Chapters IV, V, VI, and XVII.

U. S. Dept. of Agriculture, G. K. Holmes, Report 98, *Marketing Farm Produce*, pp. 9-25.

U. S. Dept. of Agriculture Yearbook, 1916, pp. 231-234.

P. T. Cherington, *The Wool Industry*, Chapter IV.

QUESTIONS AND PROBLEMS

1. List the grades in common use in the marketing of wheat, cotton, wool, potatoes, pig iron, yellow pine lumber, oysters.
2. What is the physical basis of grading in each of the above cases?
3. Do these grades continue uniform from producer to consumer?
4. Who does the grading? Is it officially supervised? If so, by what authorities?
5. Are the grades in your community the same as those prevailing generally throughout the country?

CHAPTER VII

THE STORING FUNCTION

Adjustments of Time

FOR most articles of commerce there are special seasons of production; for most of them also there are seasonal fluctuations in consumption; and in temperate zones these seldom coincide. Wheat, for example, practically all comes to harvest in this country within six or eight weeks of summer. Consumption of wheat and flour, on the other hand, seems fairly even all year. Similarly, ice is cut in winter and most heavily used in summer. Eggs are produced in a few weeks in spring far enough in excess of human capacity for those weeks to leave a surplus for consumption at reasonable rates for most of the rest of the year. Iron ore is mined on the ranges and moved in sufficient quantities during open navigation on the Lakes to keep the Pittsburgh blast furnaces going all winter. In each of these cases and in many others, the maladjustments between the time of production and the time of consumption are cared for by piling up the goods in some safe place, and protecting them against deterioration.

The ideal situation from the point of view of economy in distribution would be one represented by a perfectly even climate, perfectly constant production of all essential staples, and, presumably, an unvarying density and vigor of consumption. Such a situation would

offer an inconceivable degree of monotony compared with such conditions as actually exist in most parts of the world.

At least in the temperate zone there are few products of either farm, forest, mine, or sea which do not show fluctuations in production due to climatic, physiological, or biological causes. And these variations are rendered more than ever complex by variations in consumption. The heavy-weight season and the light-weight season are the main divisions of the consumption year in nearly every line of clothing. Foods show almost an equal regularity in adaptation to climatic changes, not merely in variations in production, but in fluctuations with respect to consumption. In the case of manufactures in general there are irregularities in both production and consumption which involve accumulations of finished goods as well as of raw materials.

The mere physical preservation of the merchandise is the most obvious feature of the storage process. This, with its resulting benefits in the way of time adjustments, is more striking in the case of cold storage as applied to perishable foods than in any other form. Dr. Mary E. Pennington of the United States Department of Agriculture, in an address a few years ago, put in compact form a summary of the more conspicuous commercial results of cold storage. In part she said:

“For years our agricultural schools have been studying the planting, cultivating, and harvesting of crops. ‘Intensive farming’ has become a by-word. What have we done to conserve freshness and high quality and to lessen the losses from decay between the producer and the consumer? You cannot pass along one of the market thoroughfares of our city without seeing on every hand

foodstuffs that show deterioration in quality chiefly due to bad handling between the time the grain was harvested, the fruit was picked, the animal was killed, or the egg laid, and the time they reached the market. I know of but one class of foods in which the decay observed here in New York is so slight as to be almost negligible; namely, the citrus fruit from California. Years ago the Department of Agriculture, in response to urgent demands from Southern California, sent some investigators to find out, if possible, why the amount of decay was so great.

“The fruit reached the East in such a condition that no one wanted it. The trouble was blamed on the soil, the climate, the transportation companies, and the consignees. The Department studied the handling of citrus fruits systematically and coöperatively with the growers, shippers, and carriers. As a result, it was a matter of only a few years until the decay was commercially a thing of the past. A carload of oranges and lemons, properly picked and packed, is sure to arrive in New York in good order. So certain has this become, that in a recent controversy between the shippers and the railroads before the Interstate Commerce Commission that both factions agreed that lemons and oranges were not perishable articles. Ten years later the growers were ready to dig up their orchards. Last year California shipped over 50,000 carloads of citrus fruits and the new groves all through the citrus-growing territory bear testimony to the confidence of the people in the industry.

“It is but a few years ago that the storage of apples was a lottery; the shipment of peaches north from Georgia a hazard; the marketing of pears and grapes had to be rushed into a small space of time, etc., etc., etc. Scientific investigation has greatly helped the marketing and storing of all those commodities and many more and though no other perishable has attained to the high perfection accorded to the handling of citrus fruits, there is no reason why they should not do so.

“The Department thinks it is justified in its belief that even so delicate a commodity as a carload of poultry, properly killed, picked, chilled, packed, and refrigerated during transportation, is as certain to arrive in good order as is a carload of oranges. Eggs,

brought fresh to the packing house, chilled and shipped under refrigeration, arrive at the market, after a week in transportation, in better condition than the eggs from near-by towns collected in the hit-or-miss fashion generally followed by the farmer, and taken to market as it suits his convenience.

“The study of the methods of handling poultry and eggs has been under way in the Department of Agriculture for several years. These commodities are not only becoming more and more popular as foods, but they are demanded by the consumer the year round, and, as they are seasonal products, the excess of the flush season must be conserved by cold storage if the market is to be supplied during the season of scarcity. From a monetary point of view, no other crop, except corn, is so valuable. Eggs alone are worth approximately \$500,000,000 per annum, and poultry is worth about half that sum. It is exceedingly difficult to estimate in dollars the amount of spoilage in any perishable throughout the country or the year. Yet we have evidence to show that between 8 and 10 per cent of all the poultry and eggs raised are totally lost as foodstuffs before the consumer is reached. In addition to this there is the saving in price due to deterioration in quality. We are, therefore, probably well within the truth when we place the loss on those two commodities as \$75,000,000 yearly. And the loss is just as unnecessary as was the decay in citrus fruits. It is practically all referable to handling after the bird is killed or the egg laid. Of course, better breeds would produce more desirable birds and larger or more plentiful eggs, but the greater loss is the neglect of our present output. . . .

“The conservation of foodstuffs during the flush season is absolutely necessary if we feed our people the year round as we have been feeding them. Scientific and practical experiments have indicated that when refrigeration is applied to the product while it is in perfect condition, it remains in good condition until the next season of production arrives. But it must be well handled before storing and well handled during marketing after storage.”

One of the most important developments of the conduct of the storage business in recent years is the work

now being done by the American Warehousemen's Association in standardizing charges for various types of storage. This work has been done under the direction of a committee of the association. The plan as worked out is an ingenious one built up on a carefully calculated basic charge which is modified in the case of various types of merchandise and varying conditions of storage. The base charge is designed to cover the cost of performing the simplest group of service for the most economical type of goods to be stored. Additional services and higher costs are then allowed for by a graded scale as nicely constructed as the tables of an insurance actuary. This effort promises to go a long way toward putting the rendering of the storage function on a scientific basis with respect to charges. In short, it bids fair to render for the storage business a service not unlike that rendered to the insurance business by the introduction of modern actuarial methods.

The facilities for performing the storage functions are far more numerous than the restricted group of warehouses of various types. The very name "Store" which we commonly apply to a retail establishment puts proper emphasis on the fact that it is one of the conspicuous functions of the retailer to hold stocks of goods until they are needed by consumers. Grain elevators, ice-houses, storage piles for coal, iron ore storage yards, lumber yards, are additional types of storage facilities quite aside from stores, warehouses, and cold storage plants which naturally come to mind when storage is mentioned. The American Warehousemen's Association has 204 members whose activities are divided

into four groups : household storage, merchandise storage, commercial storage, and cold storage. This gives some idea of the extent and variety of the specialized warehouse or storage business. But it does not convey any conception of the intricacy of the storage function in merchandise distribution nor of its place in the combined process of marketing.

The correction of maladjustments between production and consumption with reference to time is not only a vastly important task by itself, but the performance of it is intimately associated with many of those activities which determine the organization of, and operating conditions in, the whole marketing system. Physically, the storage function preserves merchandise in usable condition until it is needed, or until, from an economic point of view, it is wise to dispose of it. Incidentally the facilities developed for performing this underlying function may prove to be most economically installed and operated when they are of such a form as to offer at the same time facilities for assembling and grading, as in the case of grain elevators, or for moving to market, as in the case of the refrigerator cars and cold boxes operated by certain meat-packing companies.

From a commercial point of view, the incidental features of storage are not less important and diverse than those connected with the physical preservation of the goods. Merchandise in store may be withheld from the market, or released to the market on short notice. The stored merchandise also offers a tangible basis for credit; in fact, most goods in store are used at one time or another as security for an advance of money, against

their eventual sale; similarly stored merchandise offers a basis for speculative trading, which, while capable of abuse, undeniably does widen the market for the commodity by adding traders for gain to the actual users as possible purchasers for the goods. Another important commercial effect is the strengthening of the seller's position in the market. Within far greater limits than is the case with unstored goods the seller can dispose of them when the market suits him, without fear of their losing value, and without the inconvenience of being unable to realize a cash return from them. The buyer of stored goods is not without compensation for his loss of power to force sales. He at least buys in a market materially steadied by the equalization of trade.

In short, the storing function may be said substantially to equalize most of the important elements of "time value" in many commodities. It modifies the whole problem of place value by making the actual location of a commodity a matter of minor importance until the goods are actually required for consumption. It changes the relations between supply and demand by averting such peaks in demand as are due to scrambles for short stocks of goods, or such sags as those due to withdrawal of buyers from overstocked markets. In some cases these changes avert wastes to an extent equivalent to a material increase in the amount of production. The general effect is to raise the price to the producer and lower the cost to the consumer, by the avoidance of waste both physical and commercial.

Storing is thus seen to be not merely a device for the preservation of merchandise against damage or de-

terioration, although that is one of its important services. In addition, it serves as a useful adjunct to the performance of each of the other merchandise functions: assembling, grading, and moving. But, quite aside from these physical results, when employed with skill, and at something like its full possibilities, it serves enormously important commercial ends. It offers a basis for safe speculative trading; it increases the advantage of the buyer at all times by furnishing to him even instead of violently fluctuating price-making conditions; it enables the seller to dispose of his merchandise or to withhold it from the market far more freely than would be possible without it. For the final consumer, in whose interests we may assume this, as well as the other functions to be performed, all of these results, when not neutralized by abuses, may be regarded as beneficial. Waste is greatly reduced, both by avoiding spoilage and by equalizing the relation between supply and demand; dependence on climatic variations is minimized, and life is materially enriched by the preservation and utilization of surplus supplies of material.

It would be futile to ignore the fact that, with all these positive contributions to the economic system, storage has given opportunity for certain abuses. Centralized ownership of supplies, arbitrary and concerted action in keeping merchandise supplies out of the market, speculative exaggerations, all are made possible by storage. But each of these gets its evil character from causes other than the fact that storage is a useful factor in its achievement. In any case, these abuses can, and should be, corrected.

COLLATERAL READING

- L. D. H. Weld, The Marketing of Farm Products, Chapter VII.
P. T. Doudlinger, The Book of Wheat, Chapter XII.
T. N. Carver, Selected Readings in Rural Economics, pp. 783-826.
U. S. Bureau of Corporations, The Transportation of Petroleum,
pp. 60-62.
C. R. Van Hise, Concentration and Control, pp. 8-20 and 104-110.

QUESTIONS AND PROBLEMS

1. List and classify the storage warehouses in your community.
2. Of the customarily separated items of expense in the retail grocery business how many are the result of performing the function of storage?
3. How and by whom is the storing function performed in the case of sugar, canned goods, potatoes, butter, jewelry, dry goods, drugs and medicines, hardware, fresh meat?
4. What part does storing play in the future trading in commodities as conducted by such organizations as the Chicago Board of Trade or the New York Coffee or Produce Exchanges?

CHAPTER VIII

THE TRANSPORTING FUNCTION

Adjustments of Place

THE commercial function of correcting the maladjustments between the place of production and the place of consumption should not be confused with the phenomena concerned with the mechanical tasks involved in the physical transfer of goods from place to place. What is here under discussion is rather the process of buying merchandise in one place and selling it in another. The existence of facilities for the actual transfer from one place to another may be assumed wherever there are persons willing to undertake the work connected with buying and selling under these circumstances. The transportation industry, however, or the business of transportation, lies outside of, although it is wholly indispensable to, the mechanism for the commercial distribution of merchandise. What is here under consideration is in short the commercial, as distinct from the physical, movement of merchandise.

The carrier who is engaged in physically moving goods seldom takes title to the merchandise he moves; except for its physical preservation he assumes no risk in connection with it, and his responsibility is almost wholly concerned in its safe delivery from one place to another. In many cases, these physical risks, and the

whole process of physical transfer, are assumed by a specialized carrier for a definite price. But in addition to all the work which can thus be turned over to a functionalized carrier there is a large amount of commercial risk, and there are numerous commercial services which cannot be delegated satisfactorily, which become an integral part of the process of merchandise distribution, and which are reflected in the cost of the merchandise as delivered. In some industries these are not of great importance, but in others they become the actual determining factor in connection with the development or location of the industry.

Speaking in general terms, it probably is true that one of the most important factors in determining the industrial development of the United States is the fact that the chief source of the food supply of the country developed at a point remote from the region in which settlement was earliest and most dense; combined with the fact that the movement of this food supply from the Northwest to the Atlantic Coast was across rather than along any system of navigable waterway, except as this was supplied in the form of a broken voyage on the Great Lakes. Somewhat more concretely, it is clear that in certain industries, such, for example, as the Portland cement industry, the difficulties encountered, and the cost involved in the moving of the raw material, fix the location of the manufacturing industry near the raw material supply. Moreover, speaking generally, it is one of the most important factors in industrial location to find an accurate balancing point between the problems involved in moving the raw ma-

terial and those involved in moving the finished product. In other words, in the case of the cement industry, it is to be expected that the factories will be located near the raw material supply, but it is also true that those raw material supplies located within easy access of large markets, as, for example, those of the Lehigh Valley, will develop most easily and most rapidly.

Aside from these general aspects of the problem of merchandise transportation, or the commercial movement function, there is one other of great importance which is more often overlooked in discussions of distribution, but which is of perhaps even greater importance in connection with the distribution of manufactured articles. This aspect is, in short, the way in which the consuming market lies geographically with relation to the distributing facilities designed to serve it.

Graphically, this may be illustrated by adopting the method pursued by the publisher of a nationally circulated magazine for women, in putting before advertisers the advantages of a magazine reaching both country and city population.¹ This method consisted in drawing about the chief cities and towns of the country circles with a definite radius and then indicating the location of smaller places with relation to these. The map of the state of Iowa, for example, shows by this method a remarkably even distribution of population, and brings out some of the typical relations between the population and the distributing mechanism. The successive steps by which a map of Iowa can be drawn in accordance with this idea are as follows :

¹ Woman's World Handbook on National Distribution.

1. By taking a plain outline map of the state and drawing circles with the radius of fifteen miles about the cities having a population of over 25,000 each, a map is produced showing eight circles, three at the Mississippi River crossing points, two at the Missouri River crossing points, one at the state capitol, a little south of the center of the state, and the other two at important railroad crossing or junction points.

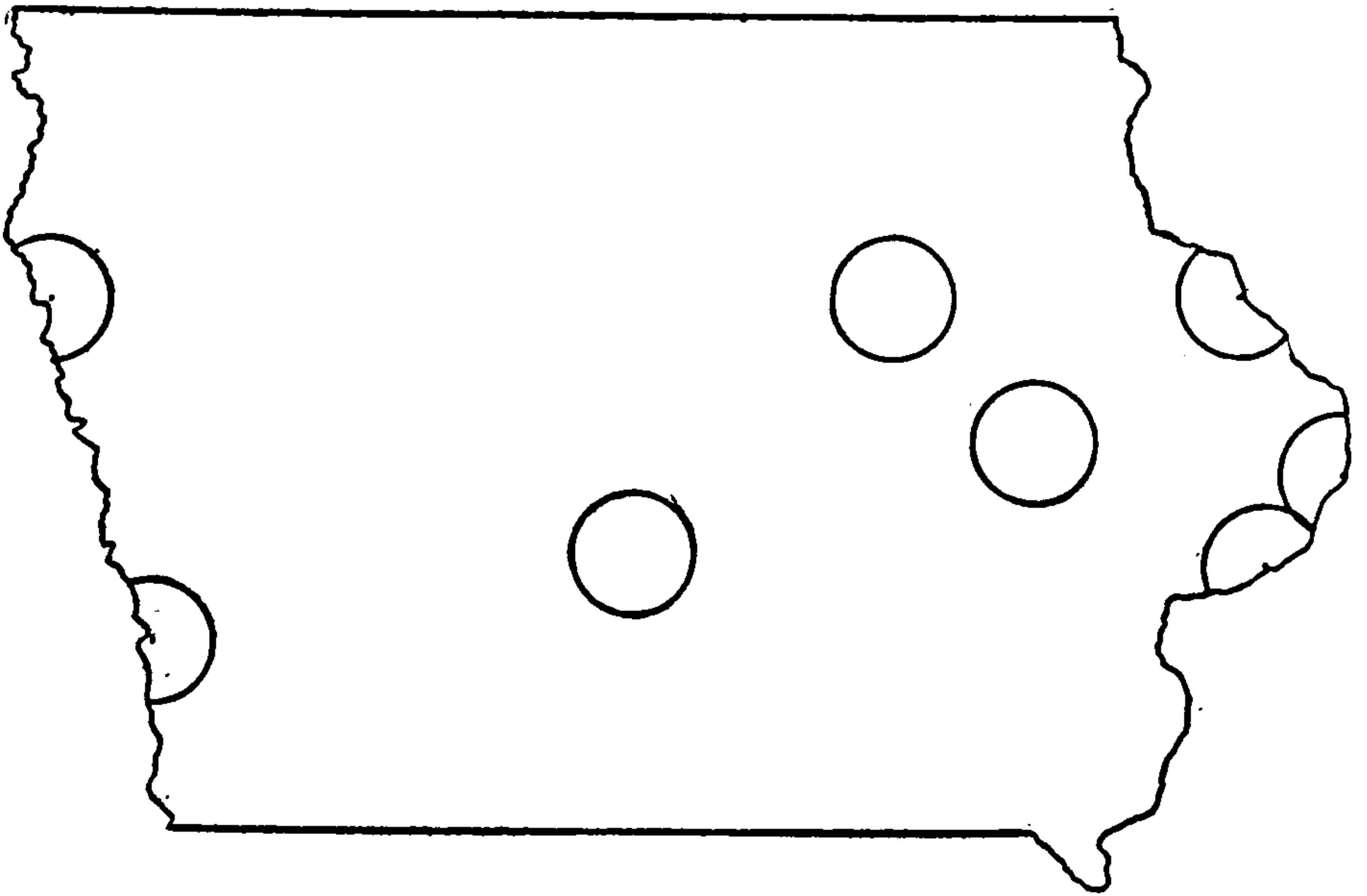


FIG. 2

2. About the 63 towns with a population between 2500 and 25,000 circles drawn with a radius of ten miles, in addition to those of larger diameter drawn about the eight leading cities, cover approximately half the area of the state with circles indicating at least roughly the regions within striking distance of substantial towns.

3. By adding circles with a five-mile radius indicating the 115 towns having a population of more than 1000 and less than 2500 a portion of the state within reach of



FIG. 3

what might be called medium-size towns is shown, although a very considerable portion of the total area is still uncovered.

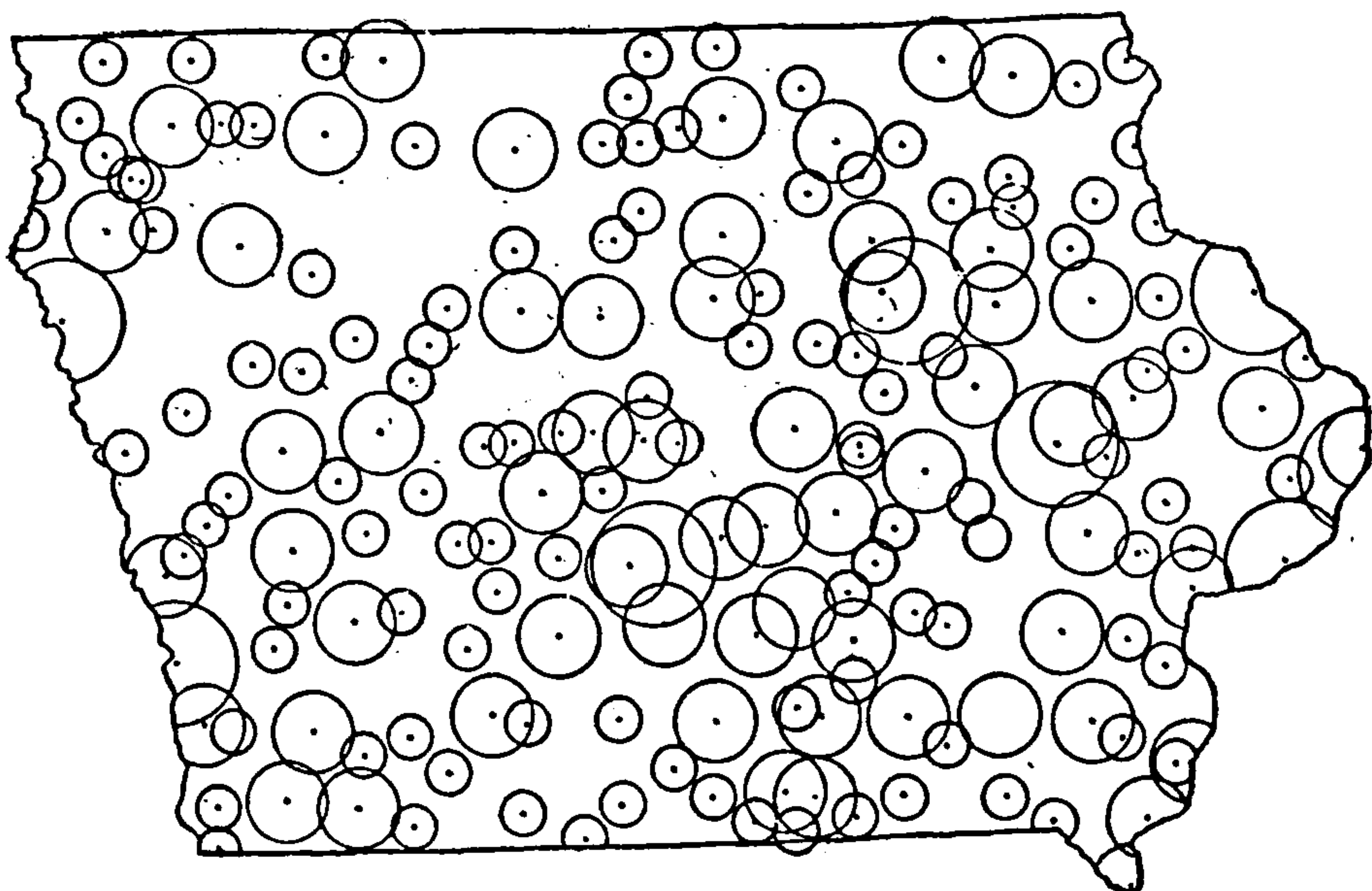
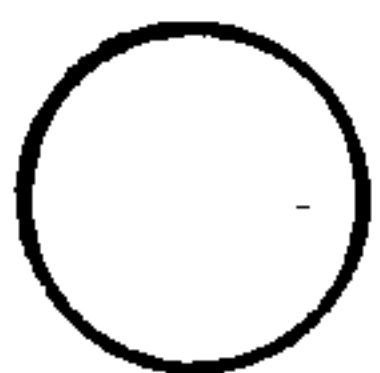
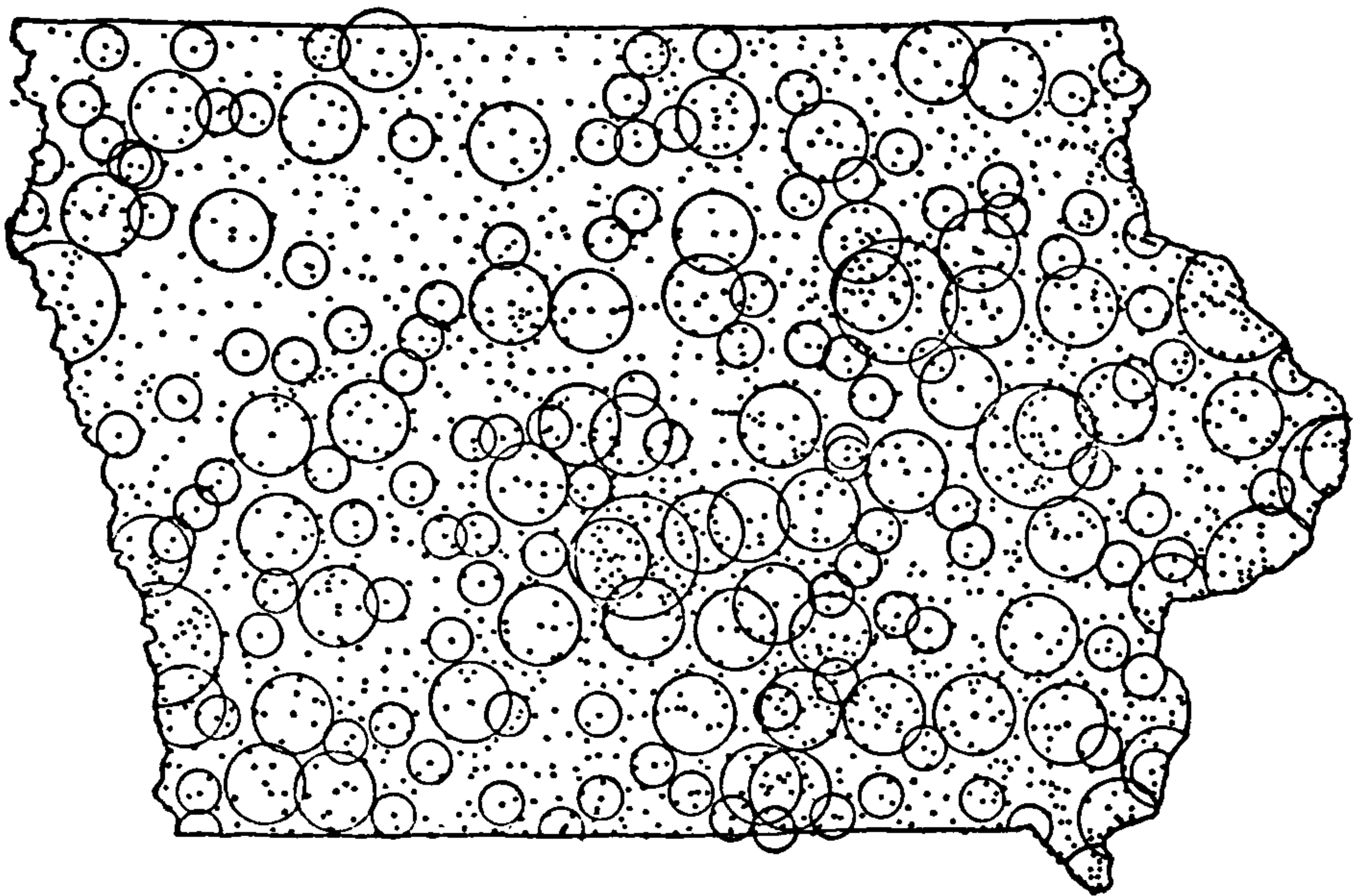


FIG. 4

4. The addition of all the incorporated places indicated by means of dots is the last step in the completion of a map which gives a comparatively clear idea of how a population fairly evenly distributed over an agricultural state is related to the channels through which merchandise is distributed for individual consumption.



Cities with population over 25,000.



Towns with population from 2,500 to 24,999.



Towns with population from 1,000 to 2,499.

FIG. 5

Similarly constructed maps of the states of Ohio, Illinois, Indiana, the southern half of Minnesota, Wisconsin, and Michigan and the similar agricultural regions of the country show approximately the same con-

ditions. Maps of the same type for the Dakotas and Nebraska show the sharp contrast between the eastern and western portions of the state, while that for New York state indicates clearly how the population and the distributing centers follow the line of the Hudson and Mohawk Valleys. The corresponding map for the state of Alabama, drawn by the same method as that pursued in the case of map No. 3, shows graphically the contrast between northern and southern conditions.

No amount of figures compiled with state areas as a unit can give as vivid a picture of the distributing task in some of the less densely populated sections, as, for example, the Rocky Mountain states, as can be got from maps of this sort drawn for Wyoming, Arizona, New Mexico, or Nevada, each of which shows large areas uncovered by any circles and very little overlapping by the circles themselves.

These maps give a graphic picture of the moving problems involved in distributing merchandise for popular consumption. The successive steps from factory to important railway centers, and thence to tributary population centers of less importance and finally to rural districts are not followed by all of this type of merchandise, but this process of successive moving is that upon which the main activities of distribution are based. For class A merchandise the moving process is in a large measure reversed. Every raw material of importance has its important centers of collection from which it moves step by step toward the factory; but as in the case of the assembling or disbursing process the analogies between the two types of moving

process are close. The underlying function is practically identical.

William H. Ingersoll, in a recent article on distribution, presents this same idea in diagrammatic form.¹ In the course of this discussion, Mr. Ingersoll makes the point that any betterment of the existing mechanism for distributing merchandise can be attained only by one of three methods: 1. The elimination of unnecessary labor in distribution. 2. The elimination of unreasonable or unearned profits customarily exacted. 3. The raising of the efficiency of the distributors. Continuing, Mr. Ingersoll says:

“We may apply these tests to these various forms of modified distribution under trial and we may examine their workings and the actual values they deliver, compared to the values contemporaneously delivered by the ordinary methods, to see if the supposed economies are realized.

“As to the first of our tests we can’t fairly judge of the successful elimination of middlemen, held to be superfluous or parasitic, unless we are familiar with the net minimum of work to be done in distribution and the functions and organization necessary to discharge it.

“To distribute goods produced in quantities in a factory or on a farm at one point so that they may be accessible to multitudes of individual consumers scattered over a continent, involves several inevitable steps or stages, as will be shown, and all efforts to reduce the number result merely in a change of form without intrinsic gain, or in the substitution of less direct and more expensive means.

“Let the sketch represent a large, typical area of the United States. A simple and direct statement of the problem is, What are the steps or processes by which the factory represented in the lower left-hand corner can most economically distribute its goods

¹ National Civic Federation Review, June 5, 1919, p. 3.

to the consumers represented by the smallest dots and scattered all over the territory?

“Each of the lettered squares may be considered a large commercial point — called a jobbing center in trade parlance — the hub of a zone, at which supplies are collected and from which they are disseminated to the tributary territory surrounding it. Such centers are typified by such cities as Boston, Baltimore, Atlanta, Buffalo, Pittsburgh, Cleveland, Cincinnati, Toledo, Chicago, St. Louis, Minneapolis, Duluth, Denver, Seattle, San Francisco, Los Angeles, Dallas, and also by smaller points like Portland, Me., Trenton, Binghamton, Erie, Akron, and Des Moines.

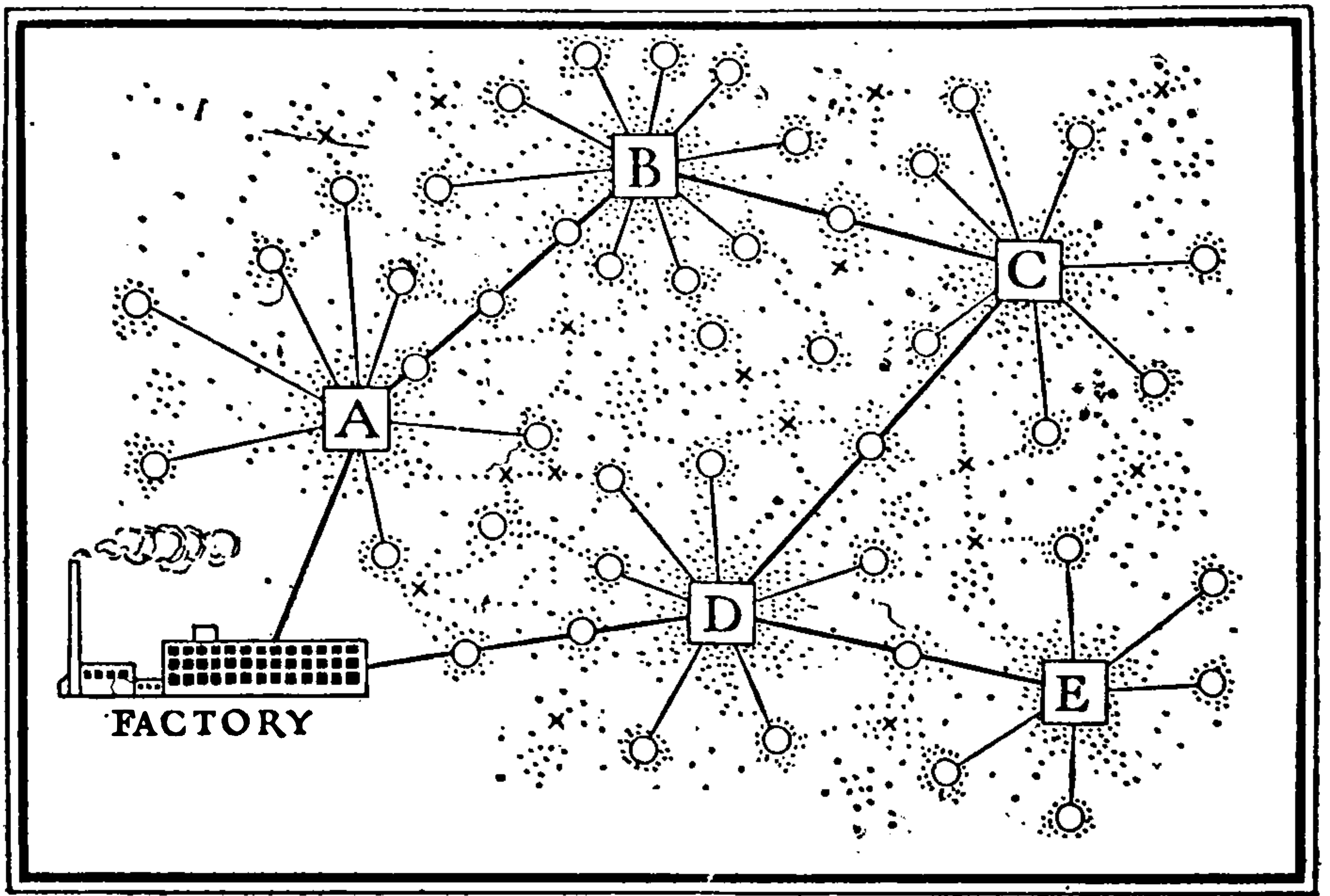


FIG. 6

“The circles represent all other communities not great enough commercially to be business junction points, trade marts, or wholesale centers, but composed of few or many households of consumers. Everything, from suburban towns to rural villages and including the bulk of the towns of less than 50,000 population and many larger, is represented by these circles. No hard and fast lines separate jobbing centers from tributary towns. Relatively small points do a jobbing trade in groceries and other

necessaries, while only large points deal in wholesale jewelry, so that one town may easily be a jobbing point in one line and not in another. But here in the places represented by these circles we have groups or bunches of consumer population to be served as indicated by the dots around the circles.

“But about half the people of the United States do not live in communities at all. They are rural dwellers — people on farms. This is crudely reflected by the dots scattered between the towns.

“To serve these rural residents there are over a hundred thousand cross-roads stores, ordinarily called general stores, but dealing largely in ‘convenience supplies’ which the country people buy at frequent intervals and in volume not worth waiting to go or send to town for, — tobacco, soda crackers, tea and coffee and sugar, etc., as well as needles, sox, and collars.

“The ‘X’ marks will serve to remind us of these country stores.”

Cases are numerous in which these place adjustments are carried out in a scientific manner by concerns undertaking the distribution of products over a wide area. It is declared on good authority that much of the success of the California Fruit Growers’ Exchange has been due to the skill with which it keeps track mathematically of the state of the market for citrus fruits in various parts of the country, and keeps supplies moving in such a way as to avoid either shortages or gluts. The fact that California was 2000 miles from its orange market was thus turned from a disadvantage into a positive source of advantage. By re-routing shipments in transit supply and demand are equalized to a degree not possible under the marketing methods which formerly prevailed. The United Fruit Company also operates a similar system with great success, with marked

economy and profit. In a less complete way shippers of vegetables from the South to the chief metropolitan markets by re-routing shipments from certain division points put supplies where they are needed when demand is strongest. In the case of non-perishables the pressure for accurate adjustment is not so great, but even with them much economy has been effected with attendant profit to producers and distributors. Manufacturers with wide or so-called national distribution frequently accomplish the same results by means of agencies and the establishment of quotas combined with frequent market reports and adjustment of allotments.

This whole field of adjustment of inequalities of place relations is one of the most promising for careful study and for the development of modern accurate methods of marketing.

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Alfred Marshall, *Industry and Trade*, Book III, Chapters III-VI incl.

P. T. Dondlinger, *The Book of Wheat*, Chapters XI and XIII.

J. O. Armour, *The Packers, the Private Car Lines, and the People*, Chapters I, H, V, VII.

U. S. Federal Trade Commission, *Summary of Report on the Meat Packing Industry*, 1919, Part I, pp. 133-146.

Swift & Company, *The Swift Year Book*, 1920.

U. S. Bureau of Corporations, *Transportation of Petroleum*, pp. 36-37, 60-62, 358-360, and 398-399.

QUESTIONS AND PROBLEMS

1. Write a summary of the part played by the pipe lines in the development of the Standard Oil Company, giving particular attention to the marketing rather than the traffic aspects.

2. Compare the place of pipe lines in the development of the Standard Oil Company with the place of the private car lines in the development of the large meat-packing concerns.

3. If the control of the principal private car lines were transferred from the present owners to a corporation owned jointly by a group of produce growers' coöperative societies, in what respects could the consuming public expect to benefit — assuming adequate financial resources and intelligent management on the part of the new corporation?

CHAPTER IX

FINANCING MERCANTILE TRANSACTIONS

THE rapid expansion of the means of transportation and communication has materially widened the area within which it is feasible to conduct banking transactions based on commodities in process of distribution. The elaboration and perfection of storage facilities have also greatly helped not only by preserving the merchandise from deterioration, but also by keeping it commercially "in sight," and under direct control. The great expansion of the use of commercial credit is one of the characteristic developments of the past fifty years which has done much to determine the character of the commercial mechanism. Raw materials on their way to market, goods in the process of manufacture, manufactured articles *en route* to the consumer: all as a matter of practice serve as security for loans of money with which the successive stages in the business are carried on.

In the case of merchandise put into cold storage, for example, it is the rule rather than the exception to secure loans which often are as much as eighty per cent of the value of the stored goods using them as security. So long as they remain in the warehouse, they are reasonably safe from destruction, they cannot pass out of the lender's control without his consent, and they therefore constitute a satisfactory collateral.

In a surprisingly large number of commodities an appreciation of the possibilities of this device for making the conduct of business safer and hence more economical has been slow in coming about. In the case of such a commodity as cotton, for example, it is estimated that the lack of a properly coördinated system of storage and finance probably results in unnecessary charges in the marketing of this commodity amounting to not less than twenty-five million dollars in this country alone. For many years no effort whatever was made to systematize the marketing of cotton. It formerly was a practice so widespread as to be almost universal for country merchants in the South to keep cotton growers supplied with such commodities as they needed throughout the growing season, liquidating the account when the cotton was picked, by taking over the cotton which had been grown and adjusting whatever balance was discovered on either side. The chief exception to this general practice was in the case of Texas, in the newer portions of which the old plantation system never had existed. These sections of Texas were developed by more independent farmers, and it was among them that the farmers' union warehouse system got its start.

Throughout the older cotton-growing areas, the necessities of the under-capitalized growers, combined with the easy-going methods of the merchants, not only offered no inducement to the development of careful methods of marketing, but in many cases actually put a premium on carelessness in handling the crop. As the farmers' union warehouses developed in Texas, however, it became apparent to the more careless cotton

people of the eastern portion of the South that even if storage charges did offset the losses from "country damage," the strategic advantage of the cotton owner who had his commodity well graded and safely stored was very great, in comparison with the position of the cotton owner whose bales were lying out in the orchard or in an uncovered court yard, ungraded and rapidly deteriorating. It was also gradually brought home to cotton growers and country merchants that graded and stored cotton was a safe collateral for loans, while money borrowed on improperly stored cotton was inadequately secured and that therefore loans of this character were more costly. The farmers' union warehouse idea has spread from Texas into Mississippi, Tennessee, Alabama, and the other principal cotton-growing states, until through practically all the more important cotton areas local storage, accompanied by the reasonably safe advancement of money on the crop, is now the rule rather than the exception. At Memphis, New Orleans, and some of the large collecting centers in the cotton belt, improved facilities for storage and modern methods of banking have been introduced for the benefit of cotton merchants. Some of these warehouses are thoroughly modern and fireproof and have resulted in a material reduction in the cost of physical handling of the cotton as well as a reduction in the losses from damage, and they have made possible also a minimizing of the cost of assuming the risk of loss from fire.

For the growers, by the aid of the local warehouses, and for the merchants, by the aid of the large warehouses at collecting points, cotton marketing methods,

and particularly those methods having to do with the financing of the crop, have been greatly improved during recent years. Several efforts have been made to extend this betterment to cover the other steps in marketing which have thus far been only indirectly benefited by these improvements. As long ago as 1900, the company which was working at the introduction of a round lap cotton bale undertook to work out a system of grading, storing, selling, and delivery based on samples drawn while the bale was in process of formation. This method of selling introduced too many new features at once and was not a success. The Farmers' Gin Compress and Cotton Company, introducing a gin compress, furnishes another instance illustrating how any change in the existing system of putting up cotton, desirable as it may be, involves an overturning of the whole machinery of cotton marketing and financing.

In 1909, Daniel J. Sully, who had recently completed a much-discussed cotton corner, developed a plan for a chain of cotton warehouses, the operation of which he predicted would result in a saving of from \$150,000,000 to \$250,000,000 each year. Mr. Sully is quoted as follows, as to the main features of his plan:

“The backbone of the plan is a chain of bonded warehouses throughout the South, sufficient in number and capacity to house one third of the crop, and that one third, as has been demonstrated, will be the balance of power which will render market congestion impossible, and insure the disposal of the crop in strict conformity with the laws of supply and demand.”

The reform of the banking system and the spread of the use of trade acceptances made it possible to im-

prove materially the combination of warehousing and banking plans during recent years. Taking advantage of this opportunity, the cotton-buying committee of the National Association of Cotton Manufacturers in 1918 developed a project which represented another step forward in the attempts to bring cotton-marketing methods to a more economical basis. This plan, as announced by the chairman of the committee, Randall N. Durfee, treasurer of the Border City Manufacturing Corporation, Fall River, Mass., was primarily designed to meet the war emergency conditions which were becoming acute, but at the same time it contained elements which would have a permanent effect on the cotton market existing.

In describing the warehousing and financing features of this product, Mr. Durfee said :

“The proposed locations of these warehouses would probably be at the southern points on the Gulf and Atlantic seaboard from which cotton is shipped, as Mobile, Savannah, Brunswick, and Charleston ; points near the manufacturing centers, as New York, Boston, Providence, Fall River, and New Bedford. It is quite essential that proper warehousing facilities be provided at the ports to care for the cotton when it arrives from the interior and before it goes on shipboard. It is also just as essential that warehouses be located near the large manufacturing centers in the East for two reasons :

“The Government wants the crop moved when transportation is available and before winter sets in. The manufacturer cannot buy all the cotton so shipped, as, with the price-fixing on goods, he can only protect his purchases by hedging in the New York market, and many spinners do not care for such protection at all. Under these conditions warehouses must be built to receive the cotton on its arrival. . . .

“With these warehouses in the East, cotton could be moved at once and would be ready when the mills wanted to buy. These warehouses under the United States Warehousing act would be under the control of the Agricultural Department; they would be bonded and licensed; the cotton stored would be graded and weighed and the tickets would be marked accordingly.

“The financing of the year’s crop promises to be acute, due to war conditions now prevailing. The South is to-day facing one of the greatest problems in how to finance the crop, and it is assuming national importance. According to good authority, the carryover of this crop amounts to 3,331,000 bales, consisting largely of bollies, boll cracks, stains and lowgrades, all undesirable cotton, on which the banks are loaning. Middling uplands are quoted to-day at 31.10 against 26.50 in 1917, 13.35 in 1916 and 9.25 in 1915.

“Southern warehouses are practically full, and unless some of this old cotton is moved soon, which hardly seems likely, there will be no warehouse facilities for the new crop, and it will have to be stored under temporary shelters and be doubly liable to damage and fire. Present indications point to a crop of between 14,000,000 and 15,000,000 bales, which, with the surplus of this crop, will amount to between 17,000,000 and 18,000,000 bales. Exports this year have amounted to 4,200,000 bales, and domestic consumption to 7,000,000 bales. Unless exports increase for next season a surplus of between 6,000,000 and 7,000,000 bales is indicated for August 1, 1919.

“To finance this amount of cotton and to stabilize prices so as to avoid a repetition of the ‘buy a bale’ movement demands that we make use of all our resources. At present the banks in the South, and through these banks other banks, are carrying very large loans on cotton, the quality of which is unknown to them. In the handling of cotton the questions of storage and financing are interwoven and equally important. With the system of warehouses, as outlined, the loaning banks would know definitely the weight and grade of the cotton on which the loan was made, as it would have the Government guarantee, as in the case of wheat.

“Furthermore, with the system of warehouses outside of the

cotton States, capital from all parts of the country would loan on these Government receipts and this would relieve the Southern banks of considerable of the burden they have been accustomed to carry. By the use of these warehouses the system of bankers and trade acceptances recommended by the National Association of Cotton Manufacturers, and indorsed by the Federal Reserve Board, would be greatly broadened."

The same principle which underlies this proposed improvement in cotton marketing methods; namely, the principle of making safe the advancing of money on goods in process of distribution, has already been worked out in other forms in many trades. Wheat is perhaps as well financed as any of our more important commodities. A vivid picture of the way in which a live elevator company finances the movement of wheat was given in testimony before a congressional committee a few years ago by a wheat operator from Minneapolis:¹

"Now, in the first place, when the crop is ready to move — our season is about the 1st of September or the last days of August — we begin to send out our money — I am speaking of elevator people now — to our country elevators. We live, as you know, in the extreme Northwest, on the line of the Northern Pacific and the great Northern and the Milwaukee and St. Paul and all Northern roads that affect the three States of Minnesota, North and South Dakota. We produce 150,000,000 bushels of spring wheat, the bulk of which has to be handled in 3 or 4 months; that is, the surplus over and above the seed, etc., for the States. Now, for instance, in my own business, I can better demonstrate it, because I am probably as large a handler as any one in the Northwest. I furnish money for at least 175 country elevators. They are scattered all over these three States. . . .

¹Testimony of A. J. Sawyer, Minneapolis, Minn., before the Hatch Committee on Agriculture, February 2-18, 1892, pp. 29-33.

“Now, we commence there and send out, say, for instance, \$500 to \$1,000 to an elevator; we cannot start on much less than that. That will absorb in my case the first day \$100,000 to \$150,000. In that part of the country our farmers thrash from the shock. They do not thrash their grain from the stack as people do in the older States of Kansas and Nebraska. When you get into the Northern wheat country you find that they thrash from the shock. We have our elevators so arranged we do not have to sack this wheat, but we have a box arranged that holds 100 bushels, and a wagon pulled by four horses hauls this wheat to the elevators and they drive upon what is called a dump, which is a platform, and when they get that wagon on the platform they touch a lever there and down goes that end of the wagon and they draw up the slide and the wheat drops into the pit. When the wagon goes up, the wagon, wheat, and all are weighed. When the wagon is emptied it is weighed again and the net difference is given over to the farmer and he goes to the elevator and gets his money. Now, our elevators are so constructed that I have actually handled in some of these elevators 1,000 bushels in an hour, sometimes making 10,000 bushels in a day. We are compelled by the railroad company, on whose land our elevators are placed and which we are under contract to protect, to keep our money there and buy this product as it is delivered, and I might say the railroad practically fixes our margin in which we buy. But we can not get our cars in to ship the first day and we will perhaps have 50,000 or 100,000 bushels because these large farmers there will thrash 2,000 or 3,000 bushels a day.

“Now, we have a kind of paymasters through the merchants in the towns in which our elevators are located, and they telegraph at night the quantity of wheat received, and if they do not telegraph they write us so we will get the mail early in the morning. We know what the receipts are and what they are apt to be the next day, and we provide the requisite amount of money for the next day. For instance, if the weather is good we increase the amount of money we send into the country. Now, we order cars there immediately, and they are loaded in carload lots — of course we must have carloads of the same class, as we cannot mix two grades

of wheat — and we begin to ship at once to the highest market. As soon as we get a carload of wheat it is ready to go, but it must be all of one grade, so that necessarily we have a quantity of wheat in our houses which runs up pretty well before we can ship all these different grades. Remember, this money must keep going into the country every day right along. There is no cessation. It must be going there, and we have to borrow this money, a great deal of it. None of us are rich enough to handle wheat in these quantities without borrowing money.

“Then, when the wheat commences to move, it probably takes 2 days to get to Duluth, so, as a matter of fact, we have got 5 or 6 days’ receipts on our hands before we begin to realize anything. When we get this wheat to market, either Duluth or Minneapolis — if it goes to Duluth we wire Buffalo — all shippers have agents at Buffalo; I have myself a house at Buffalo, and I have a broker in New York, and most all of the shippers have brokers in New York — and we all begin to sell that property as we call it c. f. i. p., which means cost, freight, and insurance paid. We also send out — that is, I do — cables every night to every market in the world that uses this grade of wheat. If the markets are able to take all our grain, we are even with the market. It is not necessary to have the grain there. We know what we have in the houses and that we have a certain number of days to ship this grain. This wheat goes in there, and we make our charter when we sell this grain. If we are able to sell all this grain, there is no trouble with us at all; we can keep right along and be protected; but as the receipts increase and the markets of the world cannot take our grain it is impossible to take it at the price we are taking. Now, what are we going to do with it? Now, suppose we are handling 100,000 bushels a day, and we can sell in Minneapolis, Buffalo, Montreal, or New York only 75,000 bushels a day — say that is all we can sell. We have then 25,000 bushels left on our hands which we cannot sell, there being no market for it.

“Now what are we going to do with that wheat? We cannot carry this; it is utterly impossible. We have wired the markets of the Old World and can get no response from there. We send them our cable — and I wish to explain that. We send

cable at the close of the market at night to our agents, one or two commission merchants there, to whom we quote cables of the price at which we will sell any reasonable amount they may want. They get these cables and try to place that wheat with their millers. While we are asleep here they are working all day trying to see if they can place 8,000 bushels, a boat load — the reason it is given the name of a boat load is because the boats on the Erie Canal carry 8,000 bushels — if they can place one or two or three or four boat loads there, then they wire back to us and accept our offer. This wheat is delivered there free; we pay the charges of delivery in Europe just the same as in New York.

“If we have the wheat on hand we do not buy any option against our sales made over there, because we have to give them all they want; because if we do not they would go to somebody else, because they have placed it. If they have purchased more wheat than we have got on hand, or will, probably, that day, then we have got to step into the market, and buy an option against the sale made to them. That keeps the channel of trade open between us and the foreign markets all the time, so we are right in there with them all the time, and we are doing that every day, which gives us a chance to place so much of the product of our country every day. As the trade increases we find the railroad company cannot ship our grain. It is not possible for them to ship it. Now, what are we to do in such a case as that? There is only one way to handle it, and that is to sell what the railroad company cannot ship to these gamblers.”

This testimony, while old, is so direct and so clearly put that it is here quoted at length. In the main the methods described are still in use.

A similar description of the method of advancing money on merchandise in cold storage was given by a New York dealer in butter and eggs before another congressional committee a few years ago as follows:¹

¹ Hearings before the select committee of the Senate to investigate wages and prices of commodities, February 24, 1910, Vol. I, pp. 629–630.

“SENATOR SMOOT. How many eggs do you put in cold storage?

MR. KUNKEL. We don't put over a couple of thousand cases.

SENATOR SMOOT. That is, in your own place?

MR. KUNKEL. Yes, sir.

SENATOR SMOOT. How many eggs do you buy to put in cold-storage houses?

MR. KUNKEL. We let the other fellows do it, and we sell them; the country shipper does the most of it.

SENATOR SMOOT. What does a cold-storage house charge by the month for a case of eggs?

MR. KUNKEL. The usual price is, I think, 40 cents; I think it is 40 cents.

SENATOR SMOOT. For what, the season?

MR. KUNKEL. That means up to the 1st of January.

SENATOR SMOOT. And did you say that those cold-storage houses advanced the money?

MR. KUNKEL. They do, through their banks; yes, sir.

SENATOR SMOOT. That is, to whom?

MR. KUNKEL. To the man who consigns that. For instance, you are in Tacoma, Ind., and you ship a carload of 400 cases; you consign them direct to that storage house, and you make a draft on the storage house, whatever they agree to give you, for instance, to-day it is \$4.50 a case — I do not think that it has advanced — \$4.50 a case, and they will honor your draft, charge you 6 per cent interest for the use of that money, and 40 cents a case to carry those eggs till the first of January. They won't make any contracts beyond that. Then, if you do not dispose of those eggs by the first of January, and take them out, they will charge you 10 cents a month, but the cold-storage people give you that much money on your case of eggs — I think they give this year \$5 — I am not sure, but I think I heard someone say they advanced \$5, and you pay interest on that.

SENATOR SMOOT. You come in during November or December and sell the eggs on commission for this house?

MR. KUNKEL. Yes, sir; they will say to us, 'Take out a carload of eggs.' The moment we take out 50 cases the cold-storage

people will come on to us for the advance they made that western shipper.

SENATOR SMOOT. That is, the \$4.50 a case, and the interest on the money advanced?

MR. KUNKEL. Yes; the \$4.50 a case, and the interest on the money advanced and the storage.

SENATOR SMOOT. And you pay that?

MR. KUNKEL. And we pay that to the cold-storage people.

SENATOR SMOOT. And as soon as you make a sale of your eggs you make a return direct to the shipper?

MR. KUNKEL. Yes, sir.

SENATOR SMOOT. And deduct all of those charges, and whatever commission you charge?

MR. KUNKEL. Yes, sir. There is really a net price. They say, 'Handle my goods at 26 cents net or 25½ cents,' whatever that may be.

SENATOR McCUMBER. And you get what you can get above that?

MR. KUNKEL. Our profit is our distributing facilities to the retail trade.

SENATOR SMOOT. That may be small or large?

MR. KUNKEL. It may be a half a cent or a cent and a half, or it may be that much less. The day we take them out we have got to pay the market price."

This financing function is by no means confined to merchandise of class A. The quotations here given have been introduced to make clear the indispensable character of this service in goods of this kind. Similar services are rendered throughout the distribution system. Elsewhere it has been shown that one of the principal services rendered by selling houses for textile mills is the advancing of money on merchandise in process of distribution, or even in process of manufacture. In the same way wholesalers or jobbers more

often than not finance their retailing customers wholly or in part, and the cost of this service and perhaps a profit charged for rendering it constitute a recognizable element in the final price. The whole system of trade discounts is chiefly the direct outgrowth of the gradation of prices to suit the amount of this financing function required of the seller. The point to be kept clearly in mind is the fact that the capital tied up in merchandise in process of distribution must have its compensation as surely as any other capital. This charge against the goods is an element in the final cost. As surely as the length of time elapsing between the production of the goods and their final consumption becomes appreciable, it must be reckoned with as a continuous element of cost. The fact that commercial credits based on these goods as collateral have become easy and recourse to them common does not necessarily mean that the distributing system has increased in costliness. It simply means that it probably is operating more nearly on the basis of a minimum safe and equitable return for the capital tied up in the goods. The great field for economy in connection with this function is the elimination, or at least the minimizing, of the risks involved as in the cotton-financing plan mentioned, thus reducing the cost of rendering this financing service as closely as possible to the cost of carrying any other loan on safe collateral. In other words, if the cost of capital tied up in goods in process of distribution can be reduced to the prevailing return for capital safely invested, this function may be regarded as being performed at a minimum of expense.

COLLATERAL READING

A. W. Shaw, *An Approach to Business Problems*, Chapters XVIII and XIX.

P. T. Cherington, *The Wool Industry*, Chapter VII.

L. D. H. Weld, *The Marketing of Farm Products*, Chapters IX and X.

J. E. Hagerty, *Mercantile Credit*, Chapters III, IV, V, VI.

QUESTIONS AND PROBLEMS

1. If a system of warehouses for the storage of wool under government supervision were established at wool centers throughout the central and far West, how would it affect the present methods of financing the wool clip? Answer on the assumption that the difficulties of grading could be met.

2. How are such commodities as leather, tobacco, and others which are a long time in commerce after they leave the producer before the manufacturing process is begun financed during the interval?

3. Jute grown in the Brahmaputra or Ganges deltas is cut and paid for in silver in the late summer. It is carried half around the world and made into bags or twine ten months later. Who advances the silver, how does he get his money back, and how is the financing process cared for, in the normal price of jute?

CHAPTER X

THE ASSUMPTION OF RISKS

THE assumption of risks is one of the most difficult and may be one of the most costly of all the functions performed in connection with the marketing of merchandise. Entirely aside from the tasks involved in the minimizing of depreciation, such as have been discussed in connection with storage, there is the task of making due allowances for those risks which cannot be eliminated altogether, or which, notwithstanding all precautions, cannot be minimized to the point where the cost of assuming them is lost, or becomes negligible, among the other costs of marketing.

In the case of such risks as style hazards, the assumption is deliberately undertaken either by the producer of the merchandise or by some factor in the distributing mechanism, who, after he has taken every precaution possible, takes a gambler's risk in the remaining hazard and presumably makes a suitable charge for it in the price of his merchandise. In the same way many other hazards such as those due to seasonal fluctuations in demand are assumed by some one concerned with the process of distribution or production, and are charged to the final consumer just as are the other necessary costs.

Insurance, which is merely a highly functionalized

assumption of certain risks, is available for the shifting of common hazards which are capable of reasonably accurate mathematical forecast; fire, flood, employer's liability, and other common business hazards are thus usually reduced to a definite basis and cared for at a minimum of cost. Many of the other hazards of business could also be insured against in this way, although such insurance is not at present customary. Ordinarily it is more economical to assume these risks than to insure against them. The premiums charged in cases of insurance against unusual hazards are necessarily high, since it is impossible to secure a sufficient number of data in these cases to serve as a basis for close actuarial calculations. In other words, while insurance companies may be found which will assume almost any kind of commercial risk, the cost of this type of insurance is necessarily so high that it is customary not to delegate the risk to a functional insurer.

From a commercial point of view a device employed in certain types of merchandise which is of relatively great importance is the use of future trading by means of future contracts. In principle a future contract is a document representing goods promised for delivery within a specified time in the future. Such documents, if issued under conditions guaranteeing their proper execution, will obviously have a value which will be in very close relation to the value of the merchandise which it will be necessary to buy for their execution when due. The principle of the future contract is thus seen to be extremely simple. The elaborateness of the mechanism which has been developed for handling

documents of this kind does not alter the essential simplicity of this kind of trading. The elaborate character of the mechanism is largely attributable to the necessity for safeguards covering the issuance and execution of such contracts.

As an example of the way in which future trading might be used for the absorption of commercial hazards, suppose we take the case of a cotton mill which in September has an opportunity to contract to deliver fabric requiring a total of 600 bales of cotton for its manufacture, 200 bales being needed in November, and 200 bales each in February and in May of the following year. On the day in September when the transaction is made, the price of spot cotton, or cotton ready for actual delivery, is, let us assume, 13.50 cents per pound. Obviously the mill, if it wanted to make sure of its mill profit without speculating in the value of cotton, could go into the market and buy 600 bales at 13.50 cents per pound, store the cotton, and use it as it was needed. This, however, would involve the outlay of about \$40,500 of capital, which would be without earning power during the entire time the cotton is stored. If the concern has a large capital, and is able to put out its own money in this way, this method of financing the transaction may be adopted, but it is not at all necessary to deal with the case in this fashion while trading in future contracts is as simple as it is.

The manufacturer receiving this offer calling for 600 bales of cotton can by the use of future contracts make a quotation on these goods, or, in other words, may sell "short" the amount of fabric made from 600 bales of

cotton with as much certainty as if he had the cotton all stored in his warehouse, and he may accomplish this without actually owning any cotton until the real need for it comes. This he can accomplish by the purchase at the time the contract is made of cotton contracts maturing in future months, quotations for which he will find as readily accessible as the quotations on spot cotton. For example, in case the spot cotton were quoted at 13.50 cents, he might find futures quoted for future months to his liking for January, April, and July; accordingly he would make his purchase on future contracts as follows:

200 January	12.68
200 April	12.70
200 July	12.75

He could then make his quotation for cloth on the basis of a 13.50 spot cotton price or, at will, on the basis of his future contract purchases with perfect assurance that, roughly speaking, any increase or decrease in the value of the spot cotton he would have to buy when he needed it for this transaction would be offset by a decrease or increase in the value of the future contracts which he bought at the time he sold the cloth and which called for cotton, deliverable to him at various times in the future, at prices which he definitely knows.

Suppose that on or about November 15, he decides to make the purchase of the 200 bales of spot cotton he is to need in November for carrying out the first third of his contract, and suppose that on that day he finds that the price of spot cotton has fallen to 10.70. In that case he would, if he had not bought a future contract,

have been able to make a speculative profit of \$280 on the 200 bales of cotton, having been able to buy at a substantially less price than the contract price called for. But, on this same day, he finds that his January future has fallen in value from 12.68, which he paid for it, to 10.31. He thus incurs a loss of \$237 by selling his future contract at the time he buys the spot cotton which it covered. This gives him a net gain of \$43 instead of a possible speculative profit of \$280 which he would have made if he had not "hedged" by means of the future contract.

Again, on January 17th, he decides to buy 200 bales of spot cotton to be spun in February, which he finds to be selling at 12.25, and at the same time he sells for 11.56 his April future quoted at that price on that day. For this contract he paid 12.70 in September, and he thus sustains a loss on the future contract of \$114, or a net gain on the transaction of \$11, instead of a possible speculative profit of \$125.

Finally, on April 17th, he buys his third lot of 200 bales of cotton for May use at the then prevailing spot price of 9.90, and sells his July future at 9.35. Without the hedge he would have thus been able to sell at 13.50 cotton which he was able to buy at 9.90 or at a profit of \$360, but against this, there was his loss of \$340 on the July future, making a net gain of \$20 instead of a speculative profit of \$360.

In this case, it is clear that by selling short on the basis of 13.50 in September, and then buying cotton as he could when it was needed, this manufacturer might have made a speculative profit of \$765. Instead of

this, however, he insured his price against depreciation of any importance and sacrificed this opportunity for a substantial gain in return for this safety, making only a negligible gain of \$74 in the way of speculative profit on a \$40,500 transaction. This, of course, enabled him to base his price for the fabric entirely on his mill profit, leaving the speculative profit out of consideration.

In order to realize how valuable this insurance is, it is only necessary to change the figures to show what would have happened in the case of a rising market, and of course it is necessary to keep in mind the fact that at the time the contract for fabric was signed the future was wholly unknown, and could only be guessed at in an exceedingly unstable fashion.

One other point in connection with this transaction is raised by the question why the manufacturer in this case did not simply allow his future contracts to mature and then use the cotton delivered in their execution for producing the fabric he had sold. The answer to this question makes clear the risk-assuming nature of future contracts as distinct from any characteristics they might have as devices to be used in the actual transfer of ownership of the commodity covered. A future contract does, to be sure, call for the actual delivery of a stipulated quantity of the commodity, but in order to make the contract salable in the widest possible market the terms of delivery usually permit the seller to deliver on any day within the month for which the contract is issued, and the rules of the exchanges permit the delivery of a comparatively wide range of grades instead of confining delivery to a specified lot or even

of a specifically indicated grade of merchandise. This latitude in the matter of delivery expands the market for the contract to include practically all users of any merchantable grade of the commodity in addition to the purely speculative traders. At the same time the fact that the contract does actually call for the delivery of some one of the deliverable grades keeps its price in close line with the spot prices paid by those purchasing the commodity for consumption.

The interaction between spot prices and future contract prices, and the interaction between speculative trading and trading for consumption, is a subject too complicated and technical for consideration here. The principal point to be brought out at this time is the fact that this form of trading by making available for purchase a document representing the goods, the price of which must closely follow any fluctuation in the price of the commodity itself, offers to the actual manufacturing user of the commodity almost complete insurance against speculative losses, in return for which his chief sacrifice is an opportunity for a speculative profit. By the counterbalancing of these two speculative features, the merchant profit or the manufacturing profit of the actual buyer or seller of the commodity may be almost completely protected.

The purchase and sale of future contracts has been subjected to much criticism because of certain speculative abuses which sometimes accompany it. The producers of agricultural products in particular have sometimes suffered from these abuses because of their general inability or disinclination to study or master the princi-

ples of market fluctuations. Much has been written about the question whether speculative trading of this kind does or does not materially affect price levels. On the whole it seems to be demonstrated that except in times of abnormal shortage or in rare cases of deliberate "rigging" of the market by large operators who create real or artificial corners the effect of future trading is rather wholesome than otherwise. It tends in normal conditions to make the market more even. It serves to iron out seasonal fluctuations, and to make the open market price at any one time reflect world conditions more accurately than would be possible in a spot market alone. But perhaps more important than any of these effects is the opportunity which future trading gives for securing at a low price practically complete assumption of speculative risks by means of the "hedge."

Wheat is in many respects the best example of a commodity sold the world over in highly organized markets where spot and future transactions are carried on side by side and with beneficial effects on both. A miller, or a wheat merchant, need never speculate in his wheat purchases and sales. He can always insure his mill profit or his merchant profit by means of a hedge as securely as he could by insurance, and this can be done at a trifling cost.

The principle of the hedge as a device for the assumption of commercial risks is capable of much expansion. In the first place many commodities such as wool, now traded in, in this country, almost wholly on a spot basis, could be, and probably will be bought and sold in markets better organized than those now open. More-

over, certain manufactured products can be traded in on this basis.

The recent experiments in the buying and selling of canned goods indicate a growing appreciation of the value of the use of future trading as a risk-distributing device.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book II, Chapter X, Appendix I.

H. H. Brace, *Value of Organized Speculation*, Chapters I, II, III, and Conclusion.

P. T. Cherington, *Wool Industry*, Chapters XI and XII.

L. D. H. Weld, *The Marketing of Farm Products*, Chapters XV and XVI.

QUESTIONS AND ANSWERS

1. What are the chief risks in the retail grocery business and how are they protected against?

2. In the wholesale grocery business?

3. In the retailing of ready-to-wear suits and cloaks for women?

4. In the manufacture of women's fancy dress goods?

5. List and explain the methods commonly used in caring for the more important commercial risks in handling cotton from the grower of the fiber to the consumer of the cloth.

CHAPTER XI

SALES FUNCTIONS — EQUIPMENT

IN our discussion of the elements of marketing, the essential functions were divided, it will be remembered, into three groups, the merchandise functions, the auxiliary functions, and those having to do with the conditions under which the sale is consummated. In the case of merchandise of classes A and B this third group of functions is of minor importance so far as its concrete aspects are concerned. In case of merchandise of class C, however, these functions may be, and indeed frequently are, the most important of all that are rendered. Their importance is large whether it is measured by the cost of rendering the services or by the effect of their performance upon the utility of the merchandise. The individual nature of retail transactions makes the unit of sale in most instances far smaller than the most effective unit for either production or distribution.

All of the phenomena of retailing are modified and most of them are rendered additionally costly by the fact that in their performance consideration is necessarily given to providing suitable conditions under which sales can be made. The essential features of retail equipment are of course comparatively simple, but only in rare instances do they exist in simple form. There is a costly and widely prevalent type of competition among retailers which consists largely in an elaboration of the

chief retailing services and the means for their performance. For example, in a large measure, the competition for the possession of store sites at certain busy corners, which results in the payment of fabulous rents, is in a large measure an unnecessary elaboration of the necessities involved in providing convenient location. Very often these sites are not inherently more convenient than others near by which are much less keenly sought for. In outlining the characteristics of those services which are concerned with the conditions under which the sale is made the three subdivisions enumerated were: (1) Equipment, (2) Personnel, and (3) Relations with the public.

The term "equipment" used in this sense is employed to include all of those features designed to be primarily of convenience to the purchasers of the merchandise in process of transfer. In the case of retail establishments serving consumers who are buying for individual or household consumption this would involve the location, layout and arrangement of the store, the devices for displaying stock, and the actual furnishings or fittings of the establishment. In addition to what has been said concerning wasteful competition in the matter of location, it is obvious that there is a large and in many respects needless burdening of merchandise with costs covering actual fittings themselves. Perhaps the best illustration is to be found in the case of soda fountains. No doubt soft drinks could be very well dispensed from a very simple counter, or, indeed, from no counter at all. It is not customary, however, to perform this retailing service in any such simple form. Competing

dispensers are, by custom, or by the persuasive talents of the sellers of equipment, induced to surpass each other in their use of onyx, mahogany, and plateglass mirrors until it is not uncommon to find an investment of \$25,000 or \$30,000 laid out in what are for practical purposes wholly unnecessary trimmings. The customary defense for this outlay is that "the public demands it." In a measure it unquestionably is true that the public does go freely to an establishment which is elaborately equipped, but there certainly is room for doubt whether the constant elaboration is a result of an actual public demand so much as it is the result of good salesmanship on the part of soda fountain builders.

In a sense, what has been said of the needless elaboration of equipment in this particular case is true also in many other lines of business. It is indeed a serious question whether that indefinite body known as "the public" has any more confidence in the palatially outfitted modern drug store than it had in the simply equipped apothecary shop of earlier days. We may very well raise the question also whether hermetically sealed groceries are sufficiently more palatable when dispensed from mahogany shelving to justify the imposition of even a small tax for the support of this luxury.

It would be difficult to establish the origin of this expensive factor in modern competition. Probably the advanced ideas developed by department stores in such matters are chiefly responsible. During the forty years when this type of institution was taking its place in the distributing mechanism it became common for

stores to compete with each other in what was called "service" quite as much as in prices of merchandise. The volume of business which these institutions did was so large that at least in some cases the burden was not unduly heavy. Operators of smaller establishments apparently found themselves obliged to imitate their larger competitors, notwithstanding the fact that the volume of sales in these smaller establishments frequently made it necessary to disguise by various devices the added overhead expense. Whether the department stores are responsible or not, it is apparently beyond dispute that modern retailing is loaded up with a large number of burdens in the way of equipment and other forms of more or less useless trimmings, most of which are disguised under the name of "service." The assumption is in nearly every case that the public calls for these services and that they are a necessary feature of modern retailing. The apparent truth is, however, that these burdens have been added little by little as a result of persuasive influences quite outside of any expressed demand on the part of the public.

In recent years there has been a noteworthy growth of a type of institution willing to stake its chances for success on the existence of a public which is willing to dispense with all or at least some of these features. The various economy stores and thrift stores and other types of similar enterprise have as their essential feature the reduction of equipment to as nearly as possible an absolute minimum. One concern operating a chain of groceries, for example, has as its fixed policy a rule never to rent a store on a main street or on the ground

floor. It has found that in every community it is possible to find close to but not immediately on the busiest corner an entrance to a second-floor room which will serve satisfactorily as a place for the dispensing of groceries, and it makes the necessary sacrifice of convenience on the part of the customer one of its principal arguments for patronage. The company, in short, undertakes to show to the customers that by going around the corner and climbing a flight of stairs there is a concrete saving of so much to be made. The success of these experiments in simplified equipment seems to indicate that at least it is not safe to attribute extravagance and a yearning for mahogany and plate glass to all the buying public. The probabilities are that some of the public does want and is willing to pay for wholly unnecessary extravagances in equipment, while a portion of the public unquestionably would be very glad to get along without them, if by so doing they could get their fair share of the saving from distribution costs.

Sylvan L. Stix, in an address before the New York State Retail Grocers Association a few years ago, declared that "There are four classes of buyers and they deal in three general classes of stores — the full-service store, the middle-class store, and the cheap cash store. Class A buyer can afford service and is willing to pay for it. Class B buyer can afford service and does not want to pay for it. Class C buyer cannot afford service, but wants it. Class D buyer cannot afford service and prefers performing the service himself for the saving involved. Now Class D, with part of class B and

class C, is the trade the 'Economy Store' is catering to so successfully, and as it represents a large percentage of the total it seems clear to me that a large percentage of the independent retailers must go on the non-service basis or be driven out of business."

Whether this statement of the situation by Mr. Stix could be established statistically or not, it is evident that there is a growing interest on the part of the public in the general question of what it is getting in return for its money and whether that return is just what it needs and would like best to have. In other words, it seems inevitable that the public should sooner or later test each feature of the distributing mechanism on the basis of its efficiency as a distributor rather than as a preserver of traditions or even as a caterer to commercial habits and customs which are costly.

A notable recent instance of the effort to attack seriously the problem of reducing the burden of dispensable equipment is the development of self-service stores, particularly in the grocery business. This idea is essentially simple, but its actual working out involves elaborate changes in the accepted traditions of store arrangement. A plan of arrangement covered by patents and bearing the incubus of the absurd trade name "Piggly Wiggly" was devised a few years ago by a storekeeper in Memphis, Tenn. This plan has been installed in many cities, and its inventor claims for it a very low operating cost, which under competitive conditions enables the operator to sell groceries to the public at less than the market price. The chief defect in the plan developed by operation is the loss from theft,

partly by customers and partly by employees, on whom the system preserves no satisfactory check. This plan — and all others which aim to cut down the costs of doing business by either eliminating or simplifying the burden imposed by the supporting of equipment costs — is sure to find a permanent place in the marketing system. Many customers are ready to forego “services,” some of one sort and some of another, provided they can be sure of securing a fair share of the saving of cost which their elimination represents. The real danger in discussing such plans, however, is the too ready assumption of the position that all kinds of customers can with equal profit make the sacrifice of their own time and energy necessarily involved in their own performance of part of the normal functions of the distributing mechanism. The so-called “regular” system of retailing may still be the most economical system for the use of customers whose time and energy have a high market value. On the other hand, the various new types of retailing, such as have been described, do beyond question serve many other customers at what represents a lower final net cost, even after the self-serving has been allowed for at full rates.

One of the features of the problem of retail equipment is that of the uneconomical multiplicity of stores. A new neighborhood is developed by the opening up of a new tract in a city; as a rule more new stores than can possibly survive at once begin to fight for its trade. In the long run the unfit are eliminated, but it is a grave question whether this is not a needlessly wasteful process. The burden of the failures is a heavy one

and it obviously falls on the consuming public. In Kansas the State Association of Retail Grocers has been attempting for several years to introduce a system of licensing for grocery retailers by which there are provided tests of the fitness of the retailer, and the mathematical demonstration of the need for the store is to be established, for the purpose of keeping unfit men from starting in business and preventing the starting of superfluous stores. By extension the plan apparently may be used eventually for closing up unfit retail establishments. This retail licensing plan has possibilities of real service. Moreover, the plan has some interesting possibilities as means of indirect taxation, which no doubt will lead to its being widely considered. In many local option centers similar ideas used to be employed in exercising control over the retail liquor business. Moral standards were set up and made a means of preventing an oversupply of saloons and of keeping their operations within bounds. With the liquor business gone as a source of revenue, here is an available source of community revenue which at the same time has some promise in the way of toning up the efficiency of the retail trade, much to the economic advantage of the community.

COLLATERAL READING

P. H. Nystrom, *Economics of Retailing*, Chapters VIII, IX, and X.
W. Sammons, *Keeping Up with Rising Costs*, Chapters I-V and XI.

U. S. Commercial Economy Board, *Economy in Retail Service* — entire.

J. W. Fisk, *Retail Selling*, Chapters V and VI.

QUESTIONS AND PROBLEMS

1. What are the best arguments for and against the establishment of state licensing boards for retailers, whose duties shall include the determination of the economic justification for any new retail enterprise and of the continued existence of established ones? Leave legal and constitutional questions out of consideration.

2. Is the peddler idea capable of wider application to any lines of retail trade in cities? Give full details of reasons for your answer.

3. Articles of clothing and underwear are frequently sold by itinerant sales persons with samples. What are the good and bad features of such a method of sale, from the consumers' point of view?

CHAPTER . XII

SALES FUNCTIONS — PERSONNEL

FOR merchandise of classes A and B it is clear that those features of the sales conditions which have to do with the personnel of the distributing organization are of a relatively simple nature. In the case of class A, the principal requirement is that those who conduct the sale shall possess certain fairly well-defined qualities which go to make up the "good salesman." The relations between employer and employee are almost wholly those which grow out of individual bargaining, and usually the number of salesmen employed by any one concern is so small that the group problems in the relations between the distributing house and this class of helpers have few social aspects of any importance. The main problem is to find salesmen who can sell goods and then to pay them enough to make it worth while for them to stay with the concern. In the case of merchandise of class B, the problems of personnel are somewhat modified by the semi-professional character of the selling operations in certain cases. But even in this case it is only rarely that the problems of personnel are of sufficient importance to become a real modifying influence either in distributing methods or in the costs of distribution.

In merchandise of class C, the case is different. When the contacts with customers are numerous and the

relations with them more or less personal, it is apparent that the qualities called for in a sales person are of such a nature as to have a relatively low monetary value. For example, alertness, respectfulness, courtesy, and such a degree of honesty as is required for the successful operation of a cash register are all admirable virtues, but they are so common that it is hardly to be expected that they will bring a large market price; nor is it likely that with these virtues and few others an employee can, by even a creditable performance of his duties, earn a sufficiently large return for his employer, under the conditions prevailing in retail trade, to justify large pay. It is evident, therefore, that the nature of the transactions involved in retail sale impose on the distributing mechanism certain restrictions with respect to personnel which are difficult to overcome.

These restrictions are evident in the case of both large and small scale institutions in this field. In the case of small-scale institutions, however, the problem is somewhat simplified by the comparative ease with which an employee may master most of the essential intricacies of the business. The intimacy of the typical personal relations between employer and employee in small retail institutions serves to make it much easier to work out a solution for problems of personnel upon grounds which are not wholly economic or sociological. In the case of large retail distributing enterprises, however, the situation is much more complex. The mere fact that the institution is large, and that the number of employees is too great to make personal contact with the employer possible, introduces another group of

problems. Even more important than this, from a marketing point of view, is the fact that in such institutions selling costs, and particularly sales wages, tend to rise year by year more rapidly than they do in smaller concerns. This imposes on the large-scale retail distributor the necessity for working out, far more accurately than is necessary with the smaller store, the relations between selling costs, even the individual efficiency of each salesman, and the volume and value of sales made. For example: a few years ago a department store in an eastern city found that its selling costs had, during a period of ten years, increased by more than 4 per cent on a basis of the value of the retail sales. This led the concern to take various measures for increasing the individual selling efficiency of its sales people. A system of what was known as suggestive selling was introduced, and the sales people were carefully instructed in methods of persuading customers to buy articles which it was not their intention to get when they came to the store. A schedule of credits and commission was set up as a reward for increased sales of this sort; these commissions ranged from 2 to 7 per cent of the value of the sale, the variations being according to the selling wages of the clerk during the previous year. Within a short time sales people who had started at a weekly wage of \$8 were by this method raised to a weekly wage of \$18, while some made 3, 4, and even 5 dollars a week extra on commissions which were paid to them quarterly on the basis of the gross profit on the merchandise they sold. In some cases the sales person was receiving additions of as much as sixty per cent over former wages,

while the whole department was conducting its business with a greatly reduced amount of sales labor. The net saving in sales wages cost within two years was over one per cent, on the basis of the retail value of the merchandise sold. This is only one method of many which have been tried for reducing the cost of selling, in so far as that is contributed to by the wages of the sales people. Another concern has worked out an elaborate set of standards of efficiency for departments and for individual sales persons, keeping an accurate mathematical record of the percentage of standard sales rate maintained. One concern has even gone so far as to try to work out a standardization of its buying schedule for the merchandise in stock in which the skill of the sales people and their joint ability to dispose of the stock constitute the most important factors.

Quite aside from any social bearing of the problems of the personnel in the distributing institutions of class C, these practical considerations involved in the earning power of employees give large importance to this subdivision of the sales functions. The Boston School of Salesmanship, which is an outgrowth of work established in 1905 by the Women's Educational and Industrial Union, has been the basis for numerous undertakings in various parts of the country designed to improve the personnel of the selling staff in department stores. Mrs. Lucinda W. Prince, who has had charge of this work, has made a national institution out of this type of instruction. The following account of the work followed in this course gives some idea of its general nature:

“The subjects included in the course of study are

those which careful analysis of the selling problem has revealed as most needed by sales people in their daily work. The underlying purpose in the selection of subjects to be taught was outlined in the beginning, under four heads as follows:

“First, to instill a regard for system and to cultivate habits of attention to detail.

“Second, to instruct in subjects which increase knowledge of the stock to be sold.

“Third, to teach the essentials of the science of selling, and to develop in the individual power for self-training.

“Fourth, to teach right thinking toward selling as a profession, to stimulate a sense of responsibility, and to influence toward high ideals of thought and action.

“The term is too short for inclusion of all the subjects that might seem desirable; those that are considered essential are the following:

<i>Subject</i>	<i>Aim</i>
Salesmanship	To teach the technique of selling and to develop a professional attitude toward the work.
Textiles — General Merchandise .	To give information about the stock and to develop an appreciation of its qualities.
Hygiene and Physical Education .	To promote good health and develop an attractive personality.
Arithmetic	To develop accuracy.
Store System	To give familiarity with the rules and forms of the store.
English	To develop forceful speech.
Color Design	To train color sense, to set standards of good taste, to develop a sense of beauty.

“Although the immediate aim in all the work is the occupational need, the ultimate aim, as the outlined purpose suggests, is personal development of the pupils and resulting growth in character. As a girl learns to be a better seller of merchandise, she learns also to be a more intelligent buyer, and the training which she receives in courteous service makes her a more gracious and influential member of society. Such subjects as textiles, color, and design are as valuable to a girl in her personal life as in her industrial relation; and arithmetic, hygiene, and English are of practically unlimited application. In brief, the training is intended not simply to help a girl earn her living, but to make the most of her life, by showing her how to make full use of her resources.”¹

The work of this school is merely typical of one method of attack on this problem. In general it may be said that the efforts to improve personnel in distributing houses, whether they are wholesale or retail, fall into three general groups:

1. The devising of a bonus or premium system by which an additional wage is made an incentive for increased sales effort.

2. Education for the purpose of raising the standard of ability of employees.

3. The standardization of instruction for the purpose of reducing error, such as is to be found in manuals and books of instruction for sales people. Many large manufacturing and distributing houses, almost every

¹ Bulletin 1917, No. 9, Department of Interior, Department-Store Education.

chain store, and some of the better organized department stores, have elaborately worked out manuals of this sort designed to supply to the sales person definite instructions as to the best method of meeting any given emergency, and the best way of performing all of the routine tasks connected with the work.

COLLATERAL READING

Wm. McDougall, *Social Psychology*, Chapters II, IH, IV.

W. D. Scott, *Influencing Men in Business*, Chapters I, II, III, V, VI.

Wm. Maxwell, *Salesmanship*, Chapters I-IV.

P. H. Nystrom, *Economics of Retailing*, Chapters VI and VII.

U. S. Dept. of the Interior, Bulletin No. 9 (1917) — Department Store Education.

J. W. Fisk, *Retail Selling*, Chapters IV and Parts II, HI, and IV.

QUESTIONS AND PROBLEMS

1. In what respects do the "employment management" problems of the selling department of an industrial concern differ in nature from those of the other departments?

2. What characteristic differences are there in the personnel problems in the office, factory, and salesroom?

3. Keep a record for one week of the instances in which you are unskillfully dealt with by the representatives of distributing concerns, wholesale and retail, who are those concerns' points of contact with the public. These include office boys, telephone clerks, sales persons, and others. Write out the results in full. Note any cases of notably skillful treatment.

CHAPTER XIII

SALES FUNCTIONS — RELATIONS WITH THE PUBLIC

THE third group of sales conditions — those having to do with the distributive relations with the public — are also of greater importance in connection with merchandise of class C than of the other two classes. The process of retail distribution rests directly on the establishment of a satisfactory connection between the distributor and a considerable number of people. In part this connection may be the result of the successful prosecution of the distributive task. In part it may be the result of deliberate effort to cultivate a friendly attitude.

The small merchant who knows practically all his customers, goes to church and club and lodge with them, has, in short, real human contact with them, knows the value of this non-commercial factor in merchandise distribution. The large store and the impersonal types of retail distributors like the chain stores cannot set up this intimate hold over their trade and have resorted to various devices in compensation. The result has been a huge array of excrescences on the distributing process, as this type of concern conducts it. Rest rooms, free alterations, return goods privileges, style shows, organ recitals, ticket bureaus, domestic science and dressmaking classes, moving picture shows, and personal service bureaus are among the devices which have been intro-

duced by large distributors in the hope of creating a substitute for the good will which personal contact creates between the small merchant and his customers.

In many quarters the feeling has arisen that these efforts have become a needless burden on the process of distribution. One customer of a Boston store writing in reply to an inquiry as to what she thought of these free services said :

“The large number of customers who do not go to the store to play should not be compelled to pay for other people’s privileges ; a business center should be strictly businesslike, giving the buyer the very best for the least possible cost.”

In that statement lies a common sense view of the situation. But the securing of a general adoption of it as a basis for action probably is impossible. In fact it is much more difficult than at first glance it would appear to be to bring about the establishment of thoroughly sound economical relations between distributors and customers. One of the chief disturbing factors in the situation is the fact that when these superfluous things are supremely well done with good judgment, and when they are made the best use of, they apparently justify themselves and pay for themselves as well. Wanamaker’s Philadelphia store owes much of its success to its institutional character. So also is the prosperity of the Marshall Field store in Chicago largely due to the atmosphere it has created by the skillful use of non-essential distributive devices for creating good will. Ease and comfort are a feature of retail transactions to a degree that they never were in the days before these and similar stores set the prevailing standards.

In contrast with these justifiable cases of “pampering” the public, many absurd and mistaken instances of unwise retailing done under the guise of cultivating good will could be cited. It is difficult to draw the line between the good and the bad, except on the basis of the relation between the cost of rendering the services and their value to the customers. One department store in New York, for example, regularly delivers all purchases free of charge in its own vehicles over an area half as large as Massachusetts, and at an annual outlay of over \$1,000,000. But who is to say whether all free deliveries by the store ought to be abolished or whether if abolished the customers of the house would be benefited? The abuse of the liberal charge account privileges is another object of attack, and in the case of many stores and many customers these abuses are a real drag on the distributing process. And yet the institution of monthly settlements doubtless is in many cases a sound method of sale. Probably the resulting encouragement to overbuying is a greater evil than the charge accounts themselves. But probably more serious as a drain on the consumer than any one of these is the whole policy of liberality and the encouragement to cultivate costly and careless habits of buying. The way these work together is well brought out by the statement recently made as a result of investigating the experience of certain stores in New York and Boston. The inquiry showed that 90 per cent of the charge purchases of certain stores involved free delivery, against 50 per cent of cash purchases during the same time. One third of all charge purchases during the time were

returned against 10 per cent for cash purchases. One large New York store doing only a cash business reports only 5 per cent of its purchases returned. Of the purchases in one large store in one eastern city over a given period under investigation the returns by charge customers amounted to 67.2 per cent of the number of sales; for cash customers 26.8 per cent; and for C. O. D. sales 10.5 per cent.

One large eastern store made an attempt a few years ago to cut down the abuse of privileges which had grown to be a heavy expense burden. The result was a grouping of these services into classes. The first class was marked for elimination, and included concerts, organ music, doormen, ushers, and certain unprofitable departments, including manicure and hairdressing parlors, classes and lectures. A second class was marked for curtailment and included some services which had become too elaborate and others which had come to be greatly abused. Rest rooms, style shows, restaurants, deliveries, return goods privileges, and credits were all materially restricted. Finally certain services were rendered but charged for as nearly as possible at cost. These included alterations, special orders, check rooms, and distant deliveries.

The economies enforced during the war gave a marked impetus to the correction of some of the worst evils which have grown up in this matter of rendering non-essential services. One successful effort to reduce the cost of these services was the plan of coöperative deliveries introduced by the Commercial Economy Board. The first report of the board on the plan said:

“Of the 47 cities and towns studied the board found that the coöperative plan had been a success in 30, a failure in 5, and doubtful as to results in 12, largely because the systems in the 12 places had only recently been installed. These cities and towns are located in 20 different States, and range in population from less than 1000 to more than 200,000.

“In one city of 12,000 population 14 wagons were found to be doing the work which under the old system required 20. One grocer in a town of 4000 had cut his delivery expense from \$1638 to \$806 a year. A merchant in another town reduced his delivery expense from \$675 to \$224 a month. Eleven stores in another place reported an annual saving of \$5000. In one city 9 wagons replaced 17, and in another 11 men, 14 horses and one car replaced 21 men, 32 horses and 4 cars. The savings generally did not mean less service to the public. In a number of instances the service was actually increased.”

As a war-time measure this was a great success. It is perhaps too much to expect that in peace times business rivalries will be laid aside permanently to secure even the obvious economies of such a plan. The participants are too apt to put a high value on the “good will” they derive from delivery in their own vehicles, and the public is too apt to feel that the responsibility for the shortcomings of a coöperative system is difficult to fix.

In the same way many of the other economies in non-essential services which came into effect during the war are already being abandoned. Perhaps the lessons in economy were not wholly lost, but there is little reason to believe that the retailers as a whole or the public in general are ready to abandon these costly attempts to cultivate “good will.”

One other important feature of the retail distributor's

relations with the public has thus far been omitted from the discussion, namely, advertising. In this part of the distribution system perhaps more sins have been committed under this name than any other. Whenever any extravagance of equipment or of operation could not be justified on any other ground, it has been said to be persisted in because of its advertising value. One large New York store is said for several years to have charged one quarter of a huge rental to advertising. This is perhaps an extreme case, but it illustrates the burdens which a useful and worthy adjunct to the retail distributing process has been obliged to bear. Excessive delivery cost, charge account losses, and many extravagant errors of judgment have been laid at this door as occasion demanded. Notwithstanding all this incubus, however, real advertising has continued to prove its worth. The news of the store, the acquainting of the public with what the organization has been able to assemble for supplying the public's wants, the creation of a conviction that there is a definite obligation to make achievement equal promises and claims: all these and much more can be put before more people with more telling effect by the skillful use of advertising in its various forms than in any other way. A study of daily papers of thirty years ago compared with the best of those printed to-day furnishes ample evidence of the progress which has been made in the use of this economical and effective marketing device. In the national advertising field the progress toward sound methods has been marked and rapid in recent years. In the retail field a few conspicuous examples of great skill and success show what

can be done. A careful observer can find evidence of enormous strides in this form of advertising even by small retailers. Each year shows progress away from mere puffing and along the road toward making printed appeals render distribution more effective and less costly. During the past five years the gap between national advertisers and the local distributors has been bridged by an increasing number of large-scale producers on the one hand, and by an increasing number of retailers on the other. The contact between the public and the retail outlets is winning recognition as one of the strategic points in the distributing process.

COLLATERAL READING

P. T. Cherington, *First Advertising Book* 1916, Chapters II–VIII.

P. T. Cherington, *Advertising as a Business Force*, Chapters VI, VII, VIII, IX, X.

P. H. Nystrom, *Economics of Retailing*, Chapter XIX.

E. S. Rogers, *Good Will, Trade Marks, and Unfair Trading*, Chapters VI, IX.

The System Co., *How to Run a Store at a Profit* — entire.

QUESTIONS AND PROBLEMS

1. For some specific retail establishment work out an advertising plan (in addition to all present efforts) costing not over 2 per cent of a year's gross sales, to be directed at cultivating a friendly feeling for the store on the part of the public. The plan should not cover more than twelve months.

2. Make a floor plan showing present arrangement of stock in some specific retail store, and then plan a new layout designed to make the store a more convenient store for customers without impairing its efficiency from the storekeeper's point of view. The maximum cost of the changes should not exceed $\frac{1}{2}$ of 1 per cent of a normal year's gross sales.

CHAPTER XIV

SALES UNDER BRAND

OF all the results of modern conditions in the field of distribution, perhaps the most conspicuous is the modern use of advertising. By this term is meant not merely the puffing of merchandise, but rather the whole group of efforts made by producers and distributors to modify demand. The only exception to the inclusion of all sales efforts in this term "advertising" is the actual use of salesmen when they employ personal solicitation. Inherently there is no reason why advertising and selling, that is to say personal and impersonal salesmanship, should not be bracketed together under some such inclusive term as "aggressive sales efforts," and clearly distinguished from sales resulting from the merits or utility of the goods as developed by their actual users. Under modern conditions it is difficult to conceive of distribution which is wholly passive, and yet there seems to be no middle ground for satisfactory discussion between completely passive distribution, and that which employs at least some of the elements of active selling, which sometimes are objected to on purely economic grounds as being an unnecessary stimulation of demand.

In all three classes of merchandise which have been under discussion, there is some use of aggressive methods for stimulating consumption and for influencing the course of commerce into one channel or another. In

many instances in the case of classes A and B, the aggressive sales efforts are particularly important because of the comparatively large units in which sales are made. In the main, however, these efforts take the form of aggressive salesmanship, rather than the form of an identification of the merchandise and the use of general appeals in the form of advertising. As has already been shown, however, the form which is taken by characteristic sales in these two classes usually makes it possible to influence purchases more economically by other means. Integration and interlocking directorates thus far have served the purposes of great expansion and control in these fields quite as well as, or even better than, it could be done by anything like a general public appeal. There are certain notable exceptions, as for example, the appeal to the public demand in the case of roller bearings for automobiles, as an example of class A merchandise; and the similar appeal to the public in the case of coal-tar residuum as a material for surfacing roads, which clearly would be classified in class B.

In merchandise of class C, the use of identification for the merchandise and the appeal to the public to buy it by brand has become so general as to be in many lines of merchandise the characteristic rather than the exceptional method of sale. This has been the result apparently of a large number of causes, notable among which are the fact that for this type of merchandise the public does directly exercise its own tastes in making its purchases, and the fact that the instability of the relationships between the factors in the distributing mecha-

nism makes a certain amount of control over the public desirable if not imperative, for most of the distributors as well as for the producer of the merchandise.

For instance, a brief consideration of the single phenomenon of concentrated retailing makes clear the effect on every phase of the distributing mechanism, impelling the distributors to compete with the producer in seeking for control over public favor. Whether the concentrated retailing institution takes the form of a department store, a chain store, a mail order house, a manufacturers' branch retail house, or even a coöperative retail establishment, the mere fact that it is doing business on a more than usually large scale, and is therefore a re-distributing agency in some of the essential functions, makes it desirable to insure a large and reasonably steady volume of business. In his new relations, this enlarged type of retailer finds not only ample inducement in the way of possible widened margin of profit, to be gained by establishing the identity of his merchandise, but he is to a substantial degree compelled to use all his persuasive power to supplement the merits of his merchandise in order to keep his stock moving regardless of the variable influences affecting demand, such as weather, and general social and economic conditions. In other words, regardless of who may make the merchandise, the large retailer's interest lies in making it easy for the public to buy it from him, and if possible, difficult for the public to buy it from his competitors either large or small.

Continuing to examine the effects of concentrated retailing alone upon the custom of identifying mer-

chandise, it is a simple matter to see that every expansion of aggressive sales effort on the part of the large and well-capitalized retailing concerns makes necessary some corresponding effort on the part of the small retailers. Notwithstanding the growth of retailing under unified control, the greater part of the business of the country in the distribution of merchandise of class C, still is, and doubtless must long continue to be, conducted by retail merchants with relatively small capital operating in a relatively small market radius, and doing business on a comparatively small scale. The very fact that in a large measure the first effect of competition by concentrated retailers is to take away a substantial part of these small retailers' more profitable business, makes the situation of these latter even more difficult. Purely passive dependence on the merits of their wares and on their willingness to serve the public will not suffice for keeping their business profitable. They in turn in self-defense are obliged to use aggressive sales methods in an effort to hold as much of their trade as possible and wherever it is feasible actually to carry on aggressive competition against their larger and better financed competitors. This has been the problem of greatest importance to the thousands of merchants in suburbs, small towns, villages, and even country districts.

Wholesalers also find themselves driven to active sales methods by the increase in concentrated retailing; the large retailer becomes the direct competitor of the wholesaler as a buyer. He may even compete with him as a wholesaler; even if the retailer of the

concentrated type still continues to buy through wholesalers, he does it only at the cost of additional concessions in prices or extra discounts. The result is that in many lines of trade the wholesalers find that the cream of their trade is being taken from them by retailers who buy direct, and that what trade is left is increasingly expensive for them to conduct. The stimulation of trade, and the control of demand by identifying the merchandise he handles, are the most easily available means for meeting the new conditions. If by brand or name he can build up a controlled clientele for a given line of merchandise, his strategic position is at once strengthened, both in the matter of buying his merchandise, and in his relationship to the retail trade.

The actual producer of merchandise, like all the other factors in distribution of this type, is driven by the increase of concentrated retailing to defend himself by undertaking to tie customers to himself, and for many lines this is most profitable only when the appeal is made to the large mass of final consumers, rather than to any of the factors in distribution. The most common device for accomplishing this is the use of a trade-mark or other means of identification. In addition to this, however, the manufacturer finds his selling problems complicated in various ways by the introduction of large-scale retailing into the distributing mechanism. In so far as retailing of this type becomes important in any particular market, it becomes increasingly difficult for the manufacturer to cover a satisfactory share of the market by the use of the ordinary wholesaling

methods alone, and yet it is usually not to his advantage to employ in any given market the large retailer exclusively as an outlet. The great difficulty comes in effecting a satisfactory reconciliation of, or compromise between, the conflicting interests of these two methods of distribution. The devices adopted by manufacturers for meeting this difficulty include in some cases control of the distribution process even as far as retailing itself. In other cases, it involves control of wholesaling only, and under still other conditions, an attempt at solution is made by setting up some sort of functional institution for taking care of the distributing end of the business. In any case, two results are manifest. In the first place, it is made clear that a manufacturer's position is not satisfactory under modern conditions if he merely contents himself with keeping his plant going for the sake of whatever manufacturing profit competitive conditions may permit. In the second place, it is clear that he puts himself in a precarious position if he allows the preservation of his market to become dependent upon the retention of the good will of two or three customers, any one or all of whom may decide to withdraw their patronage. Both of these conditions put upon the producer a responsibility of a very weighty character in the protection of his own existence by identifying his name and reputation with the goods he produces. The process of effecting this identification may at times partake of the nature of mere puffing, but it should be much more clearly appreciated than it generally is that under modern conditions the sale of merchandise under brand is at least partly a defensive

and conserving device, rather than an expensive contrivance for forcing wares upon the public.

One feature of the development of brands which is often overlooked is the fact that there may not be direct correspondence between the market covered by the brand and the producing capacity of the manufacturer developing it. For example, one mill's selling agent is said to do an annual business amounting to more than two million dollars a year in a branded textile specialty, whereas the mill has only 400 looms, the combined capacity of which is at most not over two thirds of this amount, and may not be over half of it. Certain manufacturers of shoes also are said actually to produce in their own plants only a portion of the goods sold under their trade-mark, although they do, of course, assume complete responsibility for the quality of the goods thus sold. In this way a manufacturer by the use of the brand may control not only his own product, but he may add to this such a volume of business as may insure the operation of the sales activities at a cost per unit less than could be attained in the sale of the product of his own mill alone.

In the case of some lines of goods, the relation between the manufacturing unit of greatest efficiency and the size of the market which can best be covered shows remarkable divergence. Perhaps the best example is to be found in the case of canned vegetables and fruit. The greater part of both of these commodities is sold under brands controlled by jobbers, retailers, or other distributors rather than by canners. The highly seasonal character of the canning business and the fact that a

comparatively small plant can take care of the raw materials grown over a large area has tended to keep the size of the canneries relatively small. The inevitable variation in the quality of fruits and vegetables produced in any area from year to year has hindered the development of brands by canners themselves. The only safe way, therefore, in which a brand can be developed by canners is for a group of them to unite their efforts, and place a brand standing for the season's highest quality on the product showing the highest grade for the season, regardless of whether it may come from a cannery in region A, B, or C, and also regardless of whether this region coincides with that producing the highest grade of goods during the preceding season.

The difficulties in the way of really large-scale production and the obstacles in the way of a successful large-scale exploitation of a brand by a single canner have led to the assumption of a strong position in the sale of canned goods by wholesale grocers. The wholesale grocer claims that he can adopt and exploit a brand of canned tomatoes, for instance, which will year after year stand for the very highest quality that can be procured. His tomatoes for sale under this brand he may this year buy in New Jersey, next year in Southern Indiana, and year after next on the eastern shore of Maryland, according to whichever region yields the finest pack for the year. Other brands under which inferior grades may be sold may be handled in a similar fashion, guaranteeing uniformity, regardless of the actual source of the commodity. The wholesale grocer points out the fact that regardless of his lack of

direct connection with the canning process, he so completely assumes responsibility that so far as the consumer is concerned, there could not be greater certainty if he actually owned and operated the canneries.

In a measure a similar situation prevails in other lines of trade, although the canning industry furnishes the best instance of a complete lack of coincidence. A large hardware jobbing concern sells full lines of hardware under two well-known brands. In the case of the merchandise sold under these brands, the name of the manufacturer does not appear, and both the retailer and the consumer are presumably as well protected by the jobber's brand as they would be by the name of the manufacturer or by a brand which he controlled. In this particular instance, the lack of coincidence between the factory output and the market shows some curious anomalies. A large number of saws sold under this jobber's brands come into direct competition with saws sold in the same stores under the manufacturer's own brand, and, at least in some instances, the two saws are identical in all particulars except in name. Again the same concern is said to own outright eighty per cent of the stock of a knife-manufacturing concern, which still does business under its own name. The same company also for a number of years had a contract to take all the rubber packing output of one of the largest rubber concerns in the United States. All of these—the saws made by competing manufacturers, the knives made in a controlled factory, and the rubber packing bought on an exclusive contract covering the entire output—are sold by the jobbing house under

brands covering a full line of hardware, which brands they own and control completely.

Instances of a similar kind could be multiplied. One of the best-known brands of steel pen points is a jobber's brand. For a long time a widely advertised brand of low-priced watches was controlled by a distributing house which owned no factories of its own, although in recent years the concern has become a manufacturer through the purchase of manufacturing plants. In the same way, separate jobbing houses developed three brands of knit underwear for women, all of which happened to be made in the same plant and on the same machines.

Numerous romantic stories are told about the way in which the public may be enticed from one line of goods to another, by the use of brands. Probably the most romantic of all is the story of what was a few years ago a widely advertised brand of canned food products. It is declared that this brand was started on a wager between two advertising men, one of whom declared that he could within a specified time develop a brand which could be sold for a stipulated amount of money, regardless of the fact that he had neither a factory nor any established source of supply. Whether the details of this part of the story are true or not, the really significant feature of the entire romance is the fact that after a feverish career in high finance, the brand disappeared from the market. This case serves to illustrate the established fact that in the long run, when there is not an adequate preservation of quality and a protection of the public by the establishment and

maintenance of regular sources of supply and the serious assumption of responsibility, the consuming public is not deceived into a belief in a false relation between claims of quality and the quality itself. Most of the deception seems rather to be a misleading of investors who want to get rich too fast, or a self-deception on the part of the developer of the brand concerning the extent to which the public has been misled. In every instance of great success of brand development, there seems to be a well-defined relation between the claims made for the goods, and the fulfillment of promises made or implied. By this statement there is not implied any general endorsement of branded goods. It would of course be absurd to claim that branded merchandise is all good, and that there is necessarily any intrinsic superiority in such goods over certain unbranded competing lines. The point that is made is capable of defense; namely, that there never has been any signal success in the marketing of branded merchandise over a wide market in which the goods were inferior to the expressed or implied claims of those engaged in exploiting them.

It would of course be futile to enter into a controversy as to the relative merits of individual lines of advertised and unadvertised merchandise. What does seem worth pointing out, however, is the extreme improbability of the public's being willing persistently to buy an inferior article merely on the basis of unsubstantiated claims by the producer. If any cases do exist in which an article poorer in quality than its unbranded competitor has a large sale, while unbranded merchandise of better grade has only small sale, it

seems likely that this phenomenon must be due to something more substantial than bragging by the maker of the article. It is quite conceivable that an inferior article may be sold more widely than a better grade article of the same sort provided it is better distributed. A tire chain, for instance, which may be bought at any garage where the automobilist may find himself confronted by a slippery road, may be no better than, and indeed it may not be so good as, another tire chain not as widely distributed, which on this account may have to be brought, say, from Chicago, instead of being available at the point where it is needed. Nor is it any answer to this fact to say that consumers ought to be forehanded in such matters, and anticipate their needs instead of depending on merchandise being brought to them at convenient points.

The point which it is designed to make clear by citing this particular case is that with which this discussion started; namely, that under modern conditions of living the correction of maladjustments between production and consumption with respect to quantity, quality, time, and place is quite as essential a feature of the marketing task as are the intrinsic properties of the goods in determining the fairness of the equivalent in exchange.

The brand, or other means of identification, serves as a valuable aid to the public in avoiding repurchase of merchandise which, either on account of its intrinsic properties or on account of the conditions under which it is delivered, is not satisfactory. In numerous cases, producers who formerly manufactured goods to

be sold under brands which they themselves did not control have abandoned this policy, and have been putting out goods exclusively for sale under brands which they control. Manufacturers of flour, sirup, packers of certain dried fruits, and others furnish concrete illustration. In some cases the decision to adopt this policy was made originally for the sake of securing the fabulous emoluments which tradition ascribes to the ownership of a brand. In each case, however, it was discovered not long after the policy was adopted that with the emoluments there went also obligations to preserve standards, to maintain effective distribution, and to treat the public fairly in all particulars. The penalty for a failure to meet these obligations was total failure of an irretrievable character. The rapidity and completeness with which the public abandons brands concerning which unfulfilled promises are made, serves as a more effective check against dishonesty or abuse of the public than any form of legislation could be.

Notwithstanding certain undeniable abuses which have arisen in the form of brand competition, among manufacturers who aim to "dominate" a given market, it is clearly beyond dispute that there is room for a substantial amount of competition in certain lines of goods which takes the form of attempts on the part of manufacturers with large resources pitted against each other in an effort to give the public the largest return for a given amount of money, and to do this under a system of identification which will make it possible for each to reap the largest possible share of the compensation for good service, at the same time having him exposed to

the free action of public will in case he failed to fulfill his obligation.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book H, Chapter VII.

P. T. Cherington, *Advertising as a Business Force*, Chapters V, X, XI, and XIII.

P. T. Cherington, *First Advertising Book 1916* — Chapters I and XIII.

F. W. Taussig, *Principles of Economics*, Vol. II, p. 428.

A. W. Shaw, *Approach to Business Problems*, Chapters XIII and XIV.

QUESTIONS AND PROBLEMS

1. Prepare a report on the nature of brand competition in some one line of goods, giving full consideration to the relations between national, jobbers', or other wholesale private brands, retailers' brands, and unbranded merchandise of the same class, and to prices, mark-up, rate of profit, and speed of turnover. The following lines are suggested: bottled flavoring extracts, canned fruits or vegetables, dried fruits, talcum powder, toilet soap, patent medicines or some special class (*e.g.*, tonics), carpenters' tools, automobile tires and accessories, shoes.

2. Record your experience as a prospective customer for some one kind of merchandise advertised by several concerns in some one issue of a current magazine. Note particularly such matters as circular and letter material received and the contacts established with the distributing mechanism.

CHAPTER XV

THE ELIMINATION OF DISTRIBUTERS

MOST attacks upon the problem of lowering the cost of distribution of merchandise in recent years have taken the form of attempts to eliminate some one or more of the generally accepted types of functionaries. In a few cases there has been an attempt to eliminate the whole distributing mechanism, setting up a condition under which the producer sells the goods directly to the final consumer without the intervention of any merchant. Generally speaking, however, there has been a recognition in the case of merchandise sold for individual consumption of the desirability of retaining some sort of retailing institution; and in such cases the modification of the distributing process customarily has taken the form of an elimination of one or more of the various wholesalers.

In some instances, this process of eliminating distributors appears to have been carried out with at least a reasonable degree of success. Department stores, chain stores, coöperative buying associations, and all sorts of other enlargements of retail operations which make it possible for a retailer to buy in large quantities, are constantly trying to make their purchases from producers or from as near them as possible. This means in some lines not merely a great reduction in the volume of business conducted through the whole-

saler, but it means that the loss is mainly from the most profitable portion of the wholesaler's trade. This direct buying frequently is referred to as "eliminating the jobber." The increased volume of this so-called "direct" business has made it appear that the wholesaler's elimination is feasible in many cases, and much is said about a "jobberless future." It is seldom made clear, however, that while there is a handful of small retailers left there will be work for wholesalers. Furthermore, those who deal "direct" do not often put much emphasis on the fact that, while the jobber may have been eliminated in their cases, the work which he formerly performed — storage, assembling, financing, etc. — has not been entirely eliminated. Much of it still remains and merely has been assumed by the two remaining parties to the distributive transaction — the producer and the retailer. Nor do the direct dealers dwell on the facts that the savings by jobber elimination sometimes are more apparent than real, and that such savings as are made seldom pass out of the hands of those whose assumption of the jobber's work has made this elimination possible.

In addition to the actual deliberate attempts to eliminate the wholesaler, many changes have taken place in the forms of organization and the methods of work in the various distributing steps. The following account of what has taken place in the dry goods jobbing business makes clear what is to be expected in the way of modifying forms even when there is no avowed intention of eliminating any of the customary functionaries.¹

¹The Wool Industry, P. T. Cherington, pp. 140 et seq.

The growth of the ready-to-wear business and the rise of department stores were two of the most important influences bringing about the recent changes in the methods of wholesaling dry goods. There were, however, other influences which should be noted.

The rise of important trading centers in the west and southwest which accompanied the general westward and southward spread of population would probably have brought about great changes in distributing methods even if there had been no other disturbing factors. These developments drew the jobbing business away from New York just at the time when the decline in imports weakened the incentive to stay.

The complicated subdivision of types of woolen and worsted fabrics makes it impossible to give any except general figures as to the relative proportions of importations and domestic production. But it may be said that practically all of the medium and low-grade lines consumed in this country are made here, and that while a much smaller percentage of the high-grade lines is of American manufacture the quantity is large, and has greatly increased since 1894.

A brief statement of some of the more conspicuous aspects of the reorganization of the wholesale dry-goods trade is found in a recent article by one who for a number of years was connected with the business of wholesaling dry goods in New York. This statement appeared *à propos* of the failure of the last of the great general dry-goods jobbing houses in New York City. This type known as the "general dry-goods jobbing house," was formerly the most conspicuous kind of house in the entire dry-goods trade.¹

In summarizing the early history of this particular concern, Mr. Page calls attention to the fact that Messrs. Buckley & Claffin originally went into business in 1843. One offshoot of this concern was Welling & Company, which afterwards consolidated with George Bliss & Company in the firm of Dunham, Buckley & Company. This firm later becomes James H. Dunham & Co., and still survives as a prominent feature of the New York whole-

¹ Edward D. Page, *The Independent*, July 13, 1914, p. 76.

sale dry-goods business. Now, however, it has assumed more of the aspect of a specialty jobbing house than of a general jobbing concern as it formerly was. The other branch of this original Buckley & Claflin house became Claflin, Mellin & Company, which, in 1863, took the name of H. B. Claflin & Company.

“In the 80’s,” this writer says, “manufacturers learned the advantage of selling by sample on the road.” The causes for this were numerous and complicated. Chief among them was the growth of the western country. There was a great improvement in the efficiency of selling operations conducted by mills. There were fewer bulk lots to be “jobbed” than ever before because mills, by a combination of sale to eastern and western jobbers with an increasing amount of direct sale to large retailers, were able to keep stocks from accumulating. Furthermore, as the large western jobbing houses became stronger, they were able to make effective insistence on their being given an opportunity to bid for such job lots as were offered by the mills.

Another change which told in favor of the western houses, particularly during times of depression, was the fact that the western jobbing houses paid cash to the eastern mills while the New York jobbing houses still exercised their ancient privilege of payment in from four to eight months. This inclined the mills to consider the wishes of the western houses, and even to favor those customers.

Another factor mentioned by this same writer as a cause for the growth of western jobbing trade is that after the panic of 1884 an increasing amount of hand-to-mouth buying by western retailers was necessary. As the western jobbing centers were from twenty to forty days nearer, by freight, than New York, the retailers throughout the West (which was, of course, the most rapidly growing section of the country) transferred their accounts in large numbers to western jobbers.

The decline of the general dry-goods jobbing business in New York is described by Mr. Page, as follows: “At the beginning of the quarter century that followed the panic of 1873, there were some forty concerns doing a general dry-goods jobbing business in the city of New York. At its end there were only five of them

left. Since then the Tweedie concern has retired; the Sweetsers have failed; and Tefits have liquidated; leaving only Claflin and Dunham in the field."

Unfortunately, there is no trade census and, consequently, any figures covering the number of houses in the dry-goods trade in different sections of the country are necessarily incomplete and inaccurate. An approximate idea of the situation in the trade, however, may be gathered from an analysis of some of the directories of the trade which are accepted as being of sufficient fullness to be useful.

These directories, in addition to being incomplete, often have the added disadvantage of not following a uniform classification in all parts of the country. It is difficult, therefore, to formulate a grouping of concerns for statistical purposes. An arbitrary grouping has been adopted, however, and the concerns listed in one of these directories have been enumerated ¹ under this arbitrary listing, as accurately as possible in the light of available knowledge, according to their methods of doing business and their form of organization. These figures, though necessarily somewhat inaccurate and incomplete, are submitted in order to give some idea of the geographic distribution of the dry-goods jobbing trade.

Under the heading of *General Dry Goods Jobbers* (in which class has been grouped the type of houses which formerly predominated in the New York market and which grew up in the West under the conditions mentioned by Mr. Page), we find that there were in operation, in 1912, thirty concerns, only two of which were located in New York City, the former general dry-goods jobbing capital of the country. Chicago, in volume of business, is now the center of the general dry-goods jobbing grade, although there are only three concerns in Chicago which belong to this class. St. Louis comes next in order in volume of business, with five houses which clearly belong with this group. In addition to these two chief centers of general dry-goods jobbing, there are such cities as Kansas City and St. Joseph, Cincinnati, Louisville,

¹ Sheldon's Guide to the Dry Goods Jobbing Trade—1912.

Indianapolis, and Pittsburgh, in which are located practically all of the remaining general dry-goods jobbers. Generally speaking, it may be said that practically all of the general jobbers now left are located in the Mississippi Valley, with only a very few in the Middle Atlantic States, and none at all elsewhere.

Of the *Specialty Jobbing Houses*, selling woolen goods among other lines, the directory gives us a total of 180, 98 of which are located in New York City, and 38 more within a radius of 200 miles of New York City. The remaining 44 are located mainly in the Upper Mississippi Valley, Western New York, Western Pennsylvania, and Eastern Ohio. The growth of ready-to-wear lines and the development of knit underwear have been two of the most important influences bringing about the growth of a specialty jobbing business. The history of one after another of the most successful of the specialty jobbers shows that the start was as an off-shoot from an old general dry-goods jobbing house, building up a business with a line of knit underwear as a nucleus for trade. In this way, line after line of the general trade has been split away from the old general dry-goods jobbing type of organization, and the lines which have been left have naturally gravitated into the hands of specialized houses. So far as it is possible to judge from any data available, this group is the most rapidly growing of all. In New York City this gravitation to dry-goods wholesaling into the hands of specialty houses is almost complete. In Boston, Philadelphia, and Baltimore, it is only a little less advanced proportionately. In Chicago, with some modifications, the same history seems to have begun, for we find here an increasing number of specialty houses each year, most of them starting small, and with a limited number of lines. Only a few of these specialty jobbers pay particular attention to either woolen dress goods or cloaks and suits. A substantial number, however, carry them as incidental lines.

The *Local General Jobber* is the third general arbitrary classification chosen. It is difficult to draw a sharp line between the more important of these and the smaller general dry-goods jobbing house in the first group. Taking the general nature of their available market, however, and the approximate geographic

extent of their trade as the principal basis for division between these two groups, we find 75 houses which may be classed as local general jobbing houses. Of these, 49 are in the Upper Mississippi Valley, at such railway centers as Columbus, Ohio, and in the Central South, at such points as New Orleans, Memphis, and Birmingham, and on the Pacific Coast, notably in San Francisco. One curious feature of the distribution of these houses is that in the area easily accessible to New York, this type of house scarcely exists at all, — the main exception being in the outer edge of this region in such districts as Western New York or Northern Virginia. Local jobbing centers still figure as important factors in the trade. At practically every important railroad center in the Middle West, in the South, and in the Far West, there is a group of local general jobbing houses which take care of the dry goods, notions and specialty trade of the greater part of the area geographically tributary to that center. Some of these houses do a business each year as large as five million dollars, and apparently are conducting their enterprises with considerable skill and at a profit. The service which these local general jobbers and the smaller local jobbers perform is distinctly additional to that rendered by the general dry-goods jobbers, or by the specialty jobbing houses already mentioned. The former may be characterized as local supply stations for the medium and small-size dry-goods houses in their respective districts.

The fourth group, designated as *Small Local Jobbing Houses*, is distinguished from the group of local general jobbers mainly because their market area is smaller, and their total volume of business less. The matter of location has also been a factor in classifying houses in this group, — those located at the minor railroad centers generally being placed here rather than in the Local General Jobbing House group. The small local jobbers who include woolens among their lines number 205. Of these, 64 are located in the Southeast and in the Virginia and North Carolina section, and 55 in the Central South and in the Southwest, thus making 119 located in the southern district or about 63 per cent of the total number. The remaining houses of this kind are scattered through every section of the country. While

they are not as numerous in the districts easy of access to the large jobbing centers, they figure everywhere as an important feature of the trade.

There are a few *Catalog Jobbing Houses* which have come, within the last few years, to figure conspicuously in the dry-goods trade, although most of them have come into the dry-goods business rather incidentally, and not as a part of their original plan. Butler Bros. of Chicago, The Baltimore Bargain House of Baltimore, and Chas. B. Rouse of New York all conduct a certain amount of dry-goods business in this way, and perform what many country dealers have come to feel is a valuable service in offering to them at least staple lines on a mail order basis.

Within the last few years there has grown up, in the Middle West particularly, a new type of wholesale house, dealing mainly in fabrics, and known as a "drop shipper." This type of house possesses no warehouse facilities, and is really an order taker. It works mainly among the medium-sized department stores. The method of operation it employs is to solicit orders from samples, and then to have these orders in carload lots sent to some convenient distributing point at the carload lot rate, there breaking the car into smaller lots and securing a minimum of freight cost from the factory to the store. It also cuts down all storage charges, reduces handling charges, and by offering comparatively full lines is frequently able to give better than regular wholesalers' prices to stores able to buy in case lots.

Originally the mills were able to insist that the orders secured from drop shippers should be of at least unbroken case lot size. With the growing sharpness of competition, however, a good many of the mills are said to have been induced to pack cases of mixed lots. This has caused the regular wholesale customers of the mills to raise rather strong objection to the drop shippers.

This brief summary of the principal forms which modern dry-goods wholesaling has taken serves to show some of the complications which have developed within fifteen or twenty years. In addition to these changes within the trade itself there are the two great disturbing elements previously mentioned — the growth

of the cutting trades and the growth of the large-scale retailers who buy direct. It can thus be readily understood that the market for woollen goods is by no means the well-ordered outlet that it may have been at one time.

These changes in the organization of the wholesale dry-goods trade clearly cannot be attributed to any one simple cause. Underlying the whole process of reorganization are such large phenomena as the opening of the west, the drift of population westward, and the betterment of transportation facilities. Neither the changes within the wholesale trade, nor those which have been mentioned as supplementary to them, such as the growth of large-scale retailers and the development of the ready-to-wear clothing industry, can be adequately explained without a consideration of these larger and perhaps more remote causes.

All of these factors combined seem to produce results more rapidly immediately after times of panic than at any other time. For example, immediately after the panic of 1873 there was noticeable a distinct strengthening of western jobbing houses. The buying done by the local concerns was necessarily closer, credits were shortened, and the advantages of a jobbing house near by were materially enhanced. Approximately the same thing occurred again after the depression of 1884. The stimulation of direct sale by mills which came as a result of this increased strength of the western jobbers cut into the eastern wholesale piece-goods business on one side, while the decline in imports cut into it on another side. The two phenomena complemented each other; the western jobbers were growing stronger, and the eastern jobbers were growing less able to meet their competition.

Another conspicuous factor contributing to the change in the methods of wholesaling dry goods is the general increase in the cost of doing business. Increase in rents, as well as in practically all the other chief items of selling cost, brought the cost of carrying on the business of some of the eastern jobbing houses to a figure which was entirely unsafe. For example, after the failure of one of the few remaining general wholesalers in 1910, it was declared that the figures showed that it had cost them \$750,000 to do \$5,000,000 worth of business, and it was further declared that this

cost of 15 per cent probably did not represent a maximum in the wholesale dry-goods trade.¹

Notwithstanding the rising costs of doing business and the decreased strength of the eastern jobbers' position in the handling of a general dry-goods line, the fact remained that about a quarter of the total population of the United States was still directly tributary to New York City. Furthermore, since New York had come to be recognized as the center for style influences, a great part of the direct buying for large concerns in all parts of the country was centered in New York. These two phenomena alone would be sufficient to account for the development of the specialty business which took the place of general dry-goods jobbing.

Again, as transportation facilities were improved and well-defined market areas developed in the west, manufacturing wholesalers grew up at the great railway centers, and local general jobbers at the lesser centers. In the southeast, where the greater part of the country business is still conducted by general stores, the form of jobbing house developed is slightly different from those found in the West.

Notwithstanding the complexity of the organization of the wholesale dry-goods trade of the country, one fact in connection with it appears fairly clear, namely, that the changes which have taken place in the trade have not, in the main, been due to an elimination of the wholesaling function, so much as to a change in the method of performing it. It seems probable that the factory system of production is established as the permanent method for the manufacture of the greater part of the goods handled by the dry-goods trade. On the other hand, the final sales must be in small units, and a large part of them far from the factory. Hence the permanence of the diverse retail outlets, whose task it is to handle many different lines of dry goods and allied commodities, seems probable. With uniform large-scale production at one end of the distribution mechanism, and diverse small-scale consumption at the other end, it seems evident that the function of collecting diverse lines and moving factory products in large quantities

¹ *New York Journal of Commerce*, April 23, 1910.

as far as possible toward the consumer before breaking them up is a necessary and important one. This is the work of wholesaling. It remains to be demonstrated whether it can be as well performed as an incident to either production or retailing as it can be as a separate specialized function.

The central problem in connection with the wholesaling of dry goods, therefore, is not a question of eliminating this or that individual, or type of wholesaler, so much as it is a question of the best possible adjustment of organization to functions.

Among the efforts entirely to eliminate separately owned distributing organizations coming between producer and retail distributor, one of the most successful in this country has been the United Drug Company. This concern is in effect a coöperating organization of retailers which owns and operates factories for supplying a greater part of the component concerns' requirements and at the same time performs its own wholesaling functions without dependence upon separately organized and independently owned wholesale distributors. Quite aside from the personal elements, which have been extremely important, it seems probable that at least one of the underlying reasons for the great success of this enterprise is the fact that it does materially simplify the distributing process and provide for a more accurate adjustment between the necessary functions of distribution and the machinery for carrying them out. The early stages in the development of this concern are particularly interesting, since they illustrate in concrete form the way in which a marketing problem of this type works itself out under ordinary circumstances. The most striking characteristic of this whole development appears to be that the successive

steps were the result of attacks upon the specific trade problems, without any adequate appreciation of the fact that the success with which these concrete problems were met was in a large measure due to the fact that the underlying idea was sound. The cardinal principle seems to have been to preserve the retailer and all that he stood for as an independent distributing outlet; at the same time there was every effort to secure the advantages of large-scale production. Between these two the necessary distributing steps were recognized, but every effort was made to simplify them, make them effective, and to distribute the costs and profits which they involved between producer and the retail distributor. Furthermore, by the ownership of at least a portion of the producing agencies upon which he was dependent, the retailer became the ruling factor in this combined and simplified process.

The later stages in the development of the United Drug Company, particularly the taking over of chains of retail enterprises, represent the working out of a somewhat different principle somewhat less democratic in character. For that reason, this stage in the development of the company will not be considered at this point, but a summary will be undertaken of the principal steps in the development of the company during the first ten or twelve years of its existence.

Until the year 1901 Louis K. Liggett, the originator of the concern, was a traveling salesman for Chester Kent & Company, manufacturer of various preparations, notable among which is Vinol. Vinol is a proprietary preparation widely sold for use as a general tonic.

For a number of years Mr. Liggett had been impressed with the growing seriousness of three evils in the drug trade. One was the tendency of manufacturers to force the retailers to overstock, another was the substitution of the dealer's own preparations for the preparations made by the proprietary medicine manufacturers, and the third was the failure of the retailers to maintain the manufacturers' indicated resale prices. As a result of suggestions as to the wisdom of attempting to get the coöperation of the drug retailers Chester Kent & Company called together a meeting of retail druggists in Boston in September of 1899. This gathering was attended by 31 druggists. No attempt was made to do anything more than to entertain the druggists at this meeting, the hope being that in this way they could be persuaded to become more friendly to the products of the Chester Kent & Company. In 1900 a similar meeting was held in Toledo, Ohio, under the auspices of Chester Kent & Company, and this meeting was attended by 100 retailers. In the following year, 1901, at the Buffalo Exposition there was a meeting of 300 druggists, and at this meeting plans were put before the gathering for the formation of an association to be known as the Drug Merchants of America. The underlying principle of this was to pool the buying power of the Vinol agents at least in respect to certain of the commodities which they ordinarily carried in stock.

In the following year, 1902, this idea had developed into a somewhat different form, and there was called at the Hotel Brunswick in Boston a gathering of some 35 or 40 druggists to consider the possibility of forming a company instead of a mere buying association. This project met with favor among those who attended the gathering, and the United Drug Company was formed with 35 original members. These members chose a subcommittee of seven to draw up plans for a coöperative company under the name of the United Drug Company. This committee of seven together with Mr. Liggett drew up a plan of organization, the nine essential features of which were as follows:

1. The company was to manufacture only for stockholders.
2. There was to be only one stockholder in each town.
3. The company was to make and market at the outset at

least 100 remedies, all of which were to be sold under a single blanket trade-mark.

4. Six of the 100 remedies were to be advertised extensively in season.

5. The first lines to be advertised were to be a dyspepsia cure and a catarrh cure.

6. All of the products except the advertised remedies were to be sold to the stockholders "at such a price as would not net the corporation more than 25 per cent on its gross selling price."

7. No preferred stockholder was to be admitted who had not purchased as much stock in the company as the cost of the first year's advertising in his city.

8. The control of the corporation was to be left in the hands of the druggists themselves.

9. As long as a stockholder owned common stock in the company he was to be a perpetual agent.

The Committee, after having formulated the plan of which these 9 articles were the most important items, presented the project to a meeting called in Chicago in the fall of 1902 to which 40 druggists were asked to come, and at which 34 were actually present. The company was formally organized in November of 1902.

The idea was to start with 40 concerns subscribing \$4000 each, thus giving the company an initial working capital of \$160,000. Immediately after the formation of the company an abandoned thread factory was rented in Boston and the work of manufacturing was started. On March 14, 1903, the company actually began business with a total of 150 retail druggists as the local stockholder representatives of the concern.

In the work of the first year most of the attention was given to the development of the Rexall general trade-mark and to the selling of Rexall Mucotone, a catarrh cure, and Rexall Dyspepsia Tablets, a dyspepsia cure, in accordance with the terms of the original plan. During the first year or two the main part of the efforts of the company were concentrated on the various remedies called for by the terms of the original plan. From various sources

standard prescriptions were collected, and the company began the manufacture of remedies which were compounded according to the formulæ in the files of the druggists in the form of physicians' prescriptions. These were printed in a book and placed in the hands of each of the druggists selling the products so that there was no uncertainty on the part of the druggist concerning the goods which he had for sale. In this way instead of 100 remedies, as was originally planned, the company soon found itself manufacturing approximately 250 lines of drugs and medicines compounded according to physicians' prescriptions.

The evils in the drug trade which were aimed at by the new method of doing business as adopted were (1) the compulsory handling of goods upon which there was no longer any profit, (2) the compulsory handling of goods of doubtful or unknown contents, (3) the substitution of unknown or poorly compounded goods for those which were being sold under a proprietary name. These were the lines of effort undertaken by the company on the professional side of the work of the druggists. These evils were met by giving to the druggist a line of goods which he could sell with complete confidence because they were made on known formulæ and of tested and inspected ingredients. Moreover no false claims were made as to their curative powers, and they could be sold at a decent profit. On the commercial side the company gave considerable attention to the betterment of the methods of doing business and the elimination of some of the more serious commercial shortcomings of the individual retailers.

The business done during the first year, 1903, totaled about \$62,000, in 1904 it was nearly \$325,000, and in 1907 it first passed the million dollar mark; in 1910 it passed the two million dollar mark, and since that time it has continued to grow rapidly. Before the chain idea was added there were between 5000 and 6000 Rexall druggists in the United States, about 500 in Canada, nearly 300 in Great Britain, and some in the Philippines and Bermuda.

At the time when the United Drug Company bought out the Ricker-Hegeman chain it was estimated that the Ricker-Hegeman

stores in New York did an annual business of about \$15,000,000 while the United Drug Company was supposed to be doing a combined manufacturing and retail business of between 30 and 40 million dollars. The United Drug Company of Massachusetts now has an authorized capital of \$20,000,000 of which \$4,685,000 of common stock and \$2,774,000 of preferred stock are outstanding.

The enterprises conducted by the company in addition to the drug manufacturing business include a separately organized perfumery company, a separate candy company, a stationery company, the United Druggist Mutual Fire Insurance Company, and the Drug Merchants of America, which is a coöperative purchasing organization for buying lines other than the Rexall lines to be sold by the merchants who are members of the United Drug Company. The Ballardvale Spring Company, and the National Cigar Stands are among the other companies in which the United Drug has a controlling interest.

The company has done a good deal in the way of standardizing and bettering retail methods. This was accelerated a good deal by the relations between the company and the Liggett Company, which is a retail chain store concern having the Rexall agency in Boston and in several other cities. This company was originally formed as a fighting company to relieve the United Drug Company of the risk of loss from a suit growing out of a controversy between the United Drug Company and the Riker-Jaynes Co. concerning the Rexall Agency in Boston. The Liggett Company has done much to standardize the drug-selling methods, and many of the developments which have been worked out by this company have been adopted extensively by the stockholders of the United Drug Company. These improvements include such items as uniform accounting, standardization of many management problems, the setting of definite store sales quotas and the indication of standard speeds of turn-over for some of the principal departments. For example, Mr. Liggett is quoted as follows, concerning the required turn-over in the Liggett stores, "Soda 52 times a year, candy 20 times a year, cigars 15 times a year, merchandise 8 times a year, total store 10 times a year."

These points concerning the United Drug Company have been cited at length because this concern represents one of the most successful efforts thus far made to recast the process of distribution of articles of class C, while retaining the advantages of mass production on the one hand and of independently operating retail outlets on the other. The organization and operation of the concern are a real step in advance. After various efforts at slavish imitation have failed there will doubtless emerge really constructive adaptations of the cardinal features of the plan to other lines of trade. These cardinal features besides the two just mentioned, the preservation of mass production and independent retail outlets, include such improvements of the relations between the work of distribution and the organization for performing them as are made plain in the sketch of the concern just given. As a whole it is an effective and economical distributing mechanism, impersonal where the work is mechanical and retaining a personal, human side where those elements are of real value.

Not unlike this plan in its principal parts is the form of coöperative distributing organization operated by retail grocers in various parts of the country, notably in Philadelphia. These are in effect wholesale houses and sometimes manufacturing concerns owned and operated by the independent retail concerns whom they serve.¹

In contrast with this democratic form of solution for the problem of eliminating distributors is the centralized autocratic form to be found in certain chain store

¹ An account of coöperation among retail grocery stores in Philadelphia will be found in the *American Economic Review* for June, 1915.

systems and department stores. The great difficulty encountered in these is the retention of the personal side where that is really desirable. On the standardized, mechanical side, they leave little to be desired. The following account of the manufacturing activities of the oldest of department stores in this country makes this point clear.¹

“The manufacturing activities of R. H. Macy & Co., it is understood unofficially, are now undergoing a consolidation process which, when completed, will comprise a large-sized factory working on a scientific production basis and making a good deal, if not the most part, of the merchandise on sale in the store. A mechanical engineer has been engaged to take charge of all manufacturing in the house. A 17-story building may eventually house all the production departments.

“At present, it is said, there are some 13 departments engaged in manufacturing and repair work throughout the store, a good number of them located on the eighth floor, and it is estimated that about 1500 of the store's 6000 employees are now engaged in production work, the scope of the manufacturing varying all the way from art objects, china, optical goods, candy, beverages, bread, to garment making. There are repair and service departments too, which do such work as silver plating and polishing, mending of broken articles, reproduction of art objects and antiques and also the alteration work of the garment departments.

“In the case of some kinds of merchandise, the object of the manufacturing department is to make ‘Macy's Own Merchandise’ marked with the ‘M. O. M’ trade-mark, at a cost that will enable it to be sold at a profit without the intervention of the manufacturer. In other cases, however, the production department is called in when deliveries are poor, when the right kind of material cannot be obtained on the market, or when an order is left by a patron for goods to be made up in a certain way.

¹ Daily Trade Record, October 30, 1919.

“The extent of the manufacturing activities is by no means small. In the optical department, for instance, the shop is greater than that of any jobber in New York City, it is said. There are some 200 to 300 prescriptions filled every day, and approximately 50,000 lenses made yearly. In the bakeries, some 15,000 loaves are baked daily.

“It has been estimated that each of the 13 departments turns out an average of about \$150,000 worth of merchandise a year. How valuable this service has proved to be, irrespective of the profits which may be secured from the manufacturing end in itself, is seen in the silverware department. In other stores, for instance, it is frequently the case that after seeing a sample the customer orders a dozen articles of silverware, for example. These, quite possibly, are a bit shopworn or otherwise unpresentable, and must be sent to the manufacturer to be repolished, etc. In Macy's, however, they are sent upstairs on the same day and quickly put into shape for immediate delivery. Articles that grow shopworn are also periodically retouched so that practically all the merchandise is not only spic and span but fit for sale that very same day.

“This, probably, is one of the objects of the entire production work, to keep in such close touch with orders and to effect such quick turn-over that the surplus stock will be at the minimum and everything on hand of such a nature that it can be sold at short notice.

“The entire manufacturing activities of the Macy organization, it is believed, point to the establishment of a modern factory at no remote date which will be operated on an extensive production basis. In addition to several pieces of property R. H. Macy & Co. is understood to own along 35th street and in Seventh avenue, it has been learned that negotiations have been on for some time to acquire additional property as the site of a factory building.

“This, according to the report, probably will be a 17-story structure and will house a modern factory for the Macy organization. . . .

“The goal that seems to be in view at present is a manufacturing

branch which will mark most of the merchandise sold in the store. Of course, there will always be certain proportions of it that must come from the outside, including imported goods, but a great deal of it can be made up by the store itself, and thus be a material factor in the avowed policy of underselling every other store in the city. Whether this organization will ever reach a stage where it will supply other retailers as well, somewhat in the way Marshall Field & Co. of Chicago do, remains to be seen."

One other noteworthy type of effort to eliminate distributors is to be found in the case of organizations owned and operated on a coöperative basis by consumers. These have had great success in England and on the continent, and many explanations have been offered for the distinctly less successful record they have had in this country. Aside from the social reasons for the lack of success of this sort of enterprise in this country, certain reasons of a commercial character deserve attention, although they are overlooked in most discussions of coöperative retailing. These need little discussion beyond bare statement. Among the more striking are:

1. The lack of well-defined class markets. Most of the successful coöperative enterprises in this country have been among racial groups, like Lithuanians or Poles. Coöperative stores among these in New England have flourished as long as the group remained segregated by language. But as English began to be more readily spoken the groups seemed to lose cohesion and the coöperative stores languished. Among college students, and among farmers, several successful coöperatives are to be found, illustrating again the value of a "class" market for such enterprises.

2. The economy in operation and the commercial skill of chains and independent retailers leave little ground for real economy in operation by coöperative stores.

3. The high market price of high grade managerial brains has been a difficulty in the way of coöperative store success. This sort of talent must be secured to make the competition by coöperative stores effective, and one store is seldom able to bear the necessary overhead expense which this involves. A chain of coöperative stores operating its own wholesale department might be able to overcome this obstacle, but the difficulties of organization and management are great.

4. Coöperative stores owned by consumers normally start in a small way and seldom are able to command during the years of their early development either the capital or the credit necessary to enable them to compete economically with some of the large and well-financed retailers operating for private gain.

Some of the more striking difficulties experienced by the coöperative marketing enterprises conducted by consumers are thus described in a report on the subject, "Why Coöperatives Fail," by Dr. E. H. Porter, of the New York State Market Bureau.

"Farm produce on its way from the farm where it was raised to the inhabitants of the cities," says the report, "passes through countless hands, each of which performs some service for which remuneration is exacted. Consumers' Clubs as outlined are based on the fundamental principle that some of the service, if not all, can be performed by club members for themselves at a reduced cost, thereby decreasing the cost of distribution.

"Some clubs are satisfied if the reduction of cost is apparent rather than real; that is, they are content to reduce the cost of distribution by performing some of the operations themselves. They admit that they have not eliminated any of the functions performed by the distributor, but are simply performing them for their own benefit. The consumers' club becomes a distributor as well as a consumer. To carry this idea to its ultimate conclusion, the consumers' club becomes a grower as well.

"This is not beyond the realm of possibility but is actually the case with the Rochdale stores in England. The Mormon system

in Utah and the Ebenezer community in Iowa are modified plans of this type. The diversified social and religious principles of the inhabitants of the average American city and the utter lack of a common cause, to say nothing of the cosmopolitan nature of customs, habits, and ideals, prevent any comparable coöperative movement at the present time.

“The nearest approach to any such system is the common chain store. Whether the chain sells cigars, shoes, hats, confectionery, clothing, meats, fish, groceries, prepared foods (delicatessen), prepared foods (restaurants), hardware, articles worth five or ten cents, or dairy products, does not materially alter the principle involved. The chains are based on the idea of combining under one head all the functions of distribution except delivery from the retail stores to the consumer, which they permit the consumers to do for themselves.

“They have not attempted to be producers, but they import raw materials, manufacturing the raw materials into finished products, operate factories, store their product in large warehouses both cold and dry, pack their own fruits, jams, and vegetables, operate milk condenseries, bake bread and cakes, roast coffee, compound drugs, and perform various other activities. The buying agents of these chain systems are scattered in every quarter of the globe looking for opportunities to bring products from producers to consumers. They are the real distributors.

“Unfortunately these chains have not been able, or at least have not undertaken, to distribute perishables with the same degree of thoroughness that characterizes the more staple and non-perishable or semi-perishable products. It must also be definitely understood that these chains do not perform all the operations of distribution for all products.

“It is true, however, that they perform all the functions of distribution for a few products and most of these functions for many products. There are chains that buy eggs, for example, direct from the producer and perform all the functions of distribution from candling and cold storage to retailing, and there are chains that import their own coffee, roast and pack and grind it for the consumers, or even go so far as serving it in their restaurants. In one

respect at least they perform all the functions except consumption. They produce their own milk on their farms, from their own cows, and deliver it to the consumers.

“Another type of distributing agency that performs all the functions of distribution, though usually omitting the process of farm production, is the common mail order house. Here again perishables must of necessity be eliminated. Mail order houses do most of their business in sparsely settled districts where there are no retail stores and where credit cannot be obtained, while chain store systems are most successful in congested districts where the population is very dense.

“Coöperative stores operate under the privilege of a charter and use capital that has been subscribed by consumers. Stores are operated somewhat on the chain store plan. No attempt is made to undersell the chain stores but the profit is divided in the form of dividends on the pro rata basis according to the number of shares held and the amount of the goods purchased.

“Coöperative stores are successful in industrial centers which are removed from the large centers of population where a variety of amusements is not available, but where the people are clannish, are employed at trades more or less alike, and in general where the habits and ideals of life are more or less similar.

“Since the conditions just described for the coöperative stores are not found in New York City commonly, it is doubtful whether these stores will ever meet with favor there. Instead a tendency is manifest to operate a consumers' buying club. It is a strictly business proposition. It is primarily a movement with the object of reducing the high cost of living by coöperative effort — an effort based not on the elimination of the functions of distribution (because they cannot be eliminated) but on the performance of some of these operations by the individuals themselves. It is a movement of themselves, for themselves, by themselves. By operating on the cash and carry basis they either eliminate or perform for themselves such items of the distributing expense as telephone charges, losses due to bad debts, delivery charges, buying charges, profits, and advertising expense.

“In order that a consumers' buying club may succeed —

whether it is an adjunct to a social or fraternal organization, whether it is fostered in a factory by a manufacturer or operated as a part of a system of banking for the benefit of employees, or whether it is an organization of a group of consumers in a given district of the city — it must be founded on sound principles of business economy. No one will care to deal with an irresponsible organization. In the case of clubs within a manufacturing plant or a banking concern it will be comparatively easy to secure the coöperation and financial backing of the employer, but it will be almost imperative for the ordinary consumers' club to get the money together in advance.”¹

The obvious conclusion from an examination of these more conspicuous efforts to eliminate parts of the distributing mechanism is that mere elimination of one type of functionary or another does not insure either better or cheaper distribution. Modern conditions of production and consumption impose certain complexities on the distributing process. In cases where these complex supplementary functions can be dispensed with, direct marketing is both possible and desirable. In the great mass of marketing, however, the problem is not one of doing to death one form of distributor or another, but a careful and systematic separation of necessary from superfluous functions, with a foregoing of those which are not needful, and a deliberate, painstaking adjustment of the mechanism to the most effective and economical performance of those functions which are indispensable. The first step in this is a fuller and more accurate study of the costs of merchandise distribution than hitherto has been available.

¹ *New York Journal of Commerce*, March 31, 1919.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book IH, Chapters VII and VIII.

A. W. Shaw, *An Approach to Business Problems*, Chapters I, II, VII, XI, XIV.

A. W. Douglas, *Merchandising*, Chapters I–VII.

C. C. Field, *Retail Buying*, Chapters IV, V, IX.

P. H. Nystrom, *Economics of Retailing*, Chapters XIII, XIV, XVI.

P. T. Cherington, *First Advertising Book* 1916, Chapter VII.

QUESTIONS AND PROBLEMS

1. From the viewpoint of the interests of the consuming public, discuss the following quotation from a New York daily paper:

“. . . From the standpoint of the manufacturer, the chain systems are acquiring a magnitude of outlet which makes it highly imprudent for him to refuse to sell to them. In Philadelphia the chain stores are, if anything, more attractive as an outlet for a manufacturer than the jobbers and their satellite independent retailers. In fact, one large manufacturer who recently went into that market with his product openly elected to use the chain stores, buying exchanges, and less than a quarter of the jobbers, the others being, in his opinion, unnecessary to accomplish his purpose.

“It would appear, therefore — and this is provable by ample facts — that the chain store is a menace to the manufacturer, the jobber, and the independent retailer alike. Yet, it is legitimate in itself and a logical evolution from the principle of quantity price. If a manufacturer will sell a large quantity at a lower price than a small lot, the chain store can sell its own goods more cheaply than the independent with one store, and can sell them in unfair competition with that independent. And when the retailer is driven out of existence, what shall become of the jobber? Instead of 3000 jobbers in the country and 350,000 independent retailers,

it is conceivable that we might have half a million small chain stores and less than a hundred managements, or one, for that matter.

“It is undeniable, therefore, that the chain stores, despite their legitimacy, are a ‘monopoly in the making.’ If they are desirable, why have anti-trust laws? Why not let the logical evolution of monopoly go forward? If they serve the consumer any better or more economically than independent stores, why consider the rights of business at all? The public mind nowadays shows a tendency to laugh at the rights of any business factor who stands between them and their food supply; to ride roughshod over competitive fairness or even sound business principles, so long as they can get cheap food. . . .”

2. A marketing division of the Post Office Department has been proposed. Its purpose is “to promote direct trading” between producers and consumers of farm produce by means of the mails. The following argument is advanced in its favor:

“At this time about 90 per cent of the world’s wholesale trade is done through exhibition of samples, which the buyer bears in his mind. Then come the orders by lot numbers and orders by telegraph and ‘open’ orders — all with no higgling or haggling, and never in the world was wholesale business better performed. And in the retail small purchases, especially of food products, how many housewives nowadays go to the market with market baskets on their arms and pick out their own meats and vegetables?

“So we see that the time is here for ‘ordering,’ but the true way to order, the most economic way to order, is from ‘first hands,’ and this applies especially to food products. In the distribution of food products, if the efficient mode of selling and buying be in operation, it gives the equities both to producer and to consumer. It does more; it frees the farmer from the vexations and pernicious laws of chance, hence from injustice. With chance and injustice eliminated from exchange, with the rule of efficiency and equity in its place, it will not alone make the farmer economically stronger, but it will do more; it will make this nation stronger and mightier than mere fighting ships or soldiers can make it, although these, too, should be had when wanted.”

(a) Do you agree that the argument here advanced in favor of the plan is valid? . Give reasons in full.

(b) In which of the following cases, if any, would you favor the project :

(1) If the assistance were in the form of a brokerage service without charge.

(2) If the assistance were in the form of brokerage at 1 per cent of the value of the products.

(3) If the assistance were in the form of outright purchase and sale in the form of a federal mail order establishment.

CHAPTER XVI

SIMPLIFICATION OF FUNCTIONS

THE changes in methods of production and in the organization of industry during the past fifty years have had an effect on marketing methods which has in some respects amounted to a complete revolution. These causes have not, however, been more important factors in bringing about the changes than the modifications and conditions of consumption have been.

The change of conditions in consumption is difficult to measure statistically; and yet any other measure than a statistical one is obviously misleading and untrustworthy. Nevertheless some indication of the nature of these changes in conditions of consumption which have had a direct bearing on the mechanism of distribution may be worth enumerating, in order to render more definite than it otherwise could be the real meaning of the term "changed conditions of consumption," which it will be necessary to employ frequently.

In 1880, the population of continental United States was approximately 50 million. By 1910, this figure had practically doubled. In 1880, 4 million of the population was accredited to New England. In 1910, the population of New England was $6\frac{1}{2}$ million, showing a rate of increase for this section of the country approximately half as rapid as that for the rest of the country, notwithstanding the fact that New England retained

its leadership in many large manufacturing industries. In 1880 one third of the population was classed as urban, — living in incorporated places of 2500 or more. In 1910, practically one half of the population came in this category. The railway mileage of the country, which in 1880 was 93,000 miles, had increased in 1910 to 243,000 miles, an increase substantially more rapid than the increase in population. The number of passengers carried one mile in 1880 was 8 billion; in 1910 it was 32 billion, an increase approximately twice as great in proportion as the increase in population. In 1880, there were 3700 miles of street railways operated by horses and cables. By 1910, the horse and cable lines had decreased to less than 1000 miles, while the total street railway mileage of electric lines was over 16,000 miles, or substantially more than four times as much electric railway with its larger carrying capacity as there was of horse and cable line thirty years earlier. In 1880 there were 100,000 telephone subscribers. In 1910, there were 6,600,000 or 66 times as many. The number of newspapers and periodicals increased from 11,000 in 1880 to approximately 22,000 in 1910, thus showing an increase approximately equivalent to the population increase. The circulation of these magazines, however, was multiplied by five instead of two, the combined figures having been from 31 million to 164 million in the two years under comparison. Finally, the percentage of illiteracy decreased from approximately 17 in 1880 to about 7 in 1910.

These figures, inadequate as they may be, make it evident that during thirty years when the population

was doubling, there were taking place modifications of its facilities for conducting the business of living which had a definite and very large bearing on what it had reason to expect from, and what it was likely to demand of, the mechanism existing for satisfying its daily wants. For example, the radius of sale of a clothing store, or a dry goods store in a community served by a low-fare rapid-transit system is far greater than that of the type of store whose customers must reach it either by walking or in their own conveyances. Moreover, the telephone with its possibilities for satisfying individual wants "in absentia" has put an entirely new face on the value to the consumer of an accessible location for retail establishments of many kinds.

If figures could be obtained showing accurately household conditions, these would probably be even more striking as indication of new conditions of consumption. The increased number of families living in apartments, the decreased amount of storage space available in private houses, the expanded use of electricity, the augmented rate of wages for servants, and the declining number of servants kept per family, are all subjects upon which figures of an extreme significance in the processes of distributing merchandise might be collected if facilities were available.

One other thought in connection with consuming conditions is worth noting before entering upon a discussion of the efforts which have been made in recent years to readjust the processes of distribution to the better performance of the marketing tasks. This thought is the fact that there is no likelihood whatever that the

present conditions are final. Many of the electric railways in the United States, for example, have been obliged to confess their inability to continue five-cent fares under existing conditions, and with their present capitalization. If this involves only an increase in fares, it means some modification of the old conditions of long rides, frequent service, and low fares, upon which the department stores depended for their great and extremely rapid development. If these conditions involve even more serious consequences in the way of an actual abandonment of lines, the significance of the change will be even greater. The fact that 500 miles of electric railway were abandoned in the United States during the year 1918-1919 seems to give some evidence that this problem may become a pressing one reasonably soon. In a somewhat similar way, the cheapening of the price of automobiles may have a very large effect on the distribution mechanism; and some large step in the cheapening of liquid fuel, as, for example, the adequate substitution of vegetable alcohol at 8 cents a gallon, for gasoline at 32 cents, could also be expected substantially to affect the distribution of population, its habits of living, and, therefore, the conditions under which it makes its purchases for individual consumption.

These points have been made for the purpose of reiterating what has repeatedly been brought out earlier in this discussion; namely, the absurdity of assuming that any particular form of distributing mechanism can be permanent under conditions in which both production and consumption are undergoing radical change. They serve also to emphasize the fact

that in addition to the service of effecting a change in the ownership of merchandise, the distribution mechanism performs a group of well-recognized supplementary functions. Moreover, it makes obvious the additional fact that the nature of these functions is constantly undergoing change.

If we grant that so far as economy is concerned large-scale production has certain characteristic advantages which are not to be denied, and if we recognize the additional fact that for all transactions which we have arbitrarily grouped into class C, the final sale must be made on a scale to meet the requirements of the final consumer, it is obvious that there must be somewhere between the two a point up to which there will be advantages in large-scale distribution, and beyond which the merchandise cannot satisfactorily be moved in large lots. It seems highly likely also that in many cases there will be more than one step in the distribution process, or in other words, the scale of distribution which will be most advantageous for taking care of the output of the factory may not be capable of being reduced immediately to that scale of operations most advantageous for meeting the requirements of the consumer.

So far as the quantity in which the goods are moved is concerned, there exists a genuine distinction between the wholesaling and retailing steps in the distributing process. Similarly, it could be shown that in each of the other functions which have been classified as merchandise functions; namely, those having to do with quality, time, and place, there are steps in the

distribution process which call for rather sharp differentiation; and an examination of the existing forms which have been developed for taking care of these shows that there has been in times past an attempt to work out functionaries organized for the economical performance of these separate tasks. Apparently, one of the great difficulties of the marketing system as it exists at this time, is the fact that while the functions have been undergoing change either in emphasis or in actual form, the functionaries have not adjusted themselves readily to the new conditions.

For example, it seems to be a serious question whether the retail store in the form in which it exists in such lines as groceries is at all well adapted to the economical handling of all the lines of goods which have been thrown into the grocery category. It is a question, also, whether it is a safe assumption that all types of customers can be equally well served by the same type of grocery store. Notwithstanding all the recent agitation in favor of the elimination of the charge account, free delivery, and telephone-order features of the grocery business, it seems likely that there is a very substantial portion of the grocery buying market to whom these services are among the most valuable that the grocer renders. In a household where there are young children and where there is not more than one servant, it probably would be the most expensive kind of economy for the housewife to leave the household either uncared for, or in the hands of some specially hired person, so that she might go to market and by personal inspection buy that type of goods put up in sealed packages and guaran-

teed by their makers so that inspection before purchase is neither possible nor necessary. In the case of meats, green groceries, and articles of that kind she might by personal purchase secure sufficient advantage to justify the sacrifices necessary for a personal visit to the store. But dry groceries and package groceries obviously can be bought by this type of customer by telephone quite as well as on personal inspection, and delivery costs would have to be very high in order to be above the cost to her of going to the store for these purchases, and the inconvenience of carrying them home. These statements, in this particular case, apply to only a portion of the total stock of the ordinary grocery store, and only a part of the market. They do serve, however, to raise the question whether the existing forms of grocery retailer and the existing agitation for changing in methods of selling groceries give as much attention to the performance of the functions of marketing groceries as to the preservation of certain widely accepted grocery traditions and forms.

Suppose, for example, a grocery concern should undertake to sell staple groceries without any retail store and without any sales force. Suppose instead of having a store it should have only a warehouse favorably located on a railroad and should do all of its selling by telephone. Would it not be able to render the valuable services to the consumer and dispense with the valueless items of high rent and high sales cost?

To continue further the description of this hypothetical grocery house, suppose it issued a monthly price list with weekly supplement in such lines as were neces-

sary; would it not be possible for the consumer to make practically all her purchases intelligently from the description and by telephone? Moreover, the question of trade-marked articles and fixed prices could be very satisfactorily dealt with by dividing the monthly catalogue into two parts, in one of which the trade-marked and fixed-price articles would be listed, and possibly illustrated and offered for the regular retail price; while the second part of the catalogue would show the lines which the concern could develop on its own account, and which it could offer for sale at its own prices, giving to the consumer such portion of its savings in operating cost as either its own desires or the pressure of competition might suggest.

A competent corps of telephone order takers could handle a huge volume of business at a very low cost, and all deliveries could be made on schedule, the total cost for all services rendered to the consumer being materially reduced as nearly as one could predict.

Such a plan as this may or may not be feasible, but at least it suggests a method of attacking the cost of doing business in this particular line of goods at two points where this cost is most worth cutting.

The method of solution of the high cost of retailing which has been outlined for standard grocery lines would not apply to many other lines. It might not apply to any. But such a plan as this does put before us in concrete form the question as to what it is that the consumer pays for when he buys. In package groceries bought in a retail store he pays, obviously, for much which he does not use. Probably in other lines of

groceries he secures much for which he does not pay adequately. But is the proper solution the cutting off of the valuable services, rather than a better adjustment between the price and the service called for and actually rendered?

From the point of view of the grocery trade, there may be some advantages in trying to eliminate certain of these expensive services which do not yield a direct profit. Under competitive conditions, it may not be possible usually to pass on to the consumer, in the form of extra charges for the goods or even in direct form, the cost of rendering these services.

As far as the consumer is concerned, however, it seems doubtful whether there ever will be a satisfactory solution of the problems involved in the rising costs of distribution until the problem is attacked primarily from the consumer's own angle rather than from that of any of the existing functionaries. Essentially, the real task is to effect a change in the ownership of merchandise in exchange for an equivalent, accompanied by the rendering of such distributing functions as are desired and may be worth the necessary cost of their performance. In the long run, the preservation of commercial traditions cannot be justified as a basis for additional distributing costs. The distributing mechanism will be obliged to adjust itself accurately to the task of performing with the utmost economy those marketing functions which have real value to those who finally pay for them. Nor is it going to be possible to secure an accurate adjustment of this sort without a subdivision into classes of some of the recognizable types

of consumer, while there is also necessary a recognition of differences in the nature of goods of the marketing services called for and of the conditions under which these services are to be rendered.

A suggestive experiment in the simplification of marketing functions was tried recently by a large specialty store in Boston. It advertised to its patrons a new plan of selling whereby the prices charged to customers would not include the cost of delivery. Moreover, charge accounts were separately charged for at a fixed rate per month. The plan was received by the customers with skepticism. A purchaser of a suit of clothes found it difficult to see how he profited by purchasing a suit at the store and paying extra for delivery when he could buy a suit apparently as good across the street for the same store price and not pay for delivery. Competing stores ridiculed the idea of a separate charge for these useful and often necessary services. One store reminded its patrons that the use of elevators and other conveniences of the store was not charged for and that delivery and charge accounts were absorbed in the same way. In vain did the innovating store protest that the savings went to the consumer in better quality. The experiment failed, and after a fair trial the plan was abandoned.

The so-called "basement" stores operated by many department stores in which fixtures are simplified and all the usual "trimmings" of the upstairs store are eliminated, do furnish a specific and in the main successful instance of the process of simplifying functions. But here the elimination is so varied and the reduction

in operating cost so appreciable as to be visibly reflected in the price of the goods. This type of retailing, which has been copied with profit by numerous "job lot" stores in nearly every city, represents a definite step in the simplification of functions. Another good illustration is found in the cafeteria and in the "self-serving" stores which have made substantial headway in many parts of the country.

Simplified distributing of this kind may be expected to develop and to exhibit many new forms as time goes on. But such stores probably will grow side by side with the more elaborate types of retailing establishment, each serving a group of customers who find in them the combination of principal and auxiliary activities best adapted to their respective needs. Several chains of grocery stores operate stores of both kinds almost side by side. One very successful grocery chain in an Eastern state still does a thriving business in its fancy stores which have been operating for years and which offer a full set of traditionally accepted services; while near some of its best stores it operates "thrift stores" on the "cash and carry" principle and with simple fixtures and a minimum of the supplementary functions being performed. In many respects this case is similar to the familiar "Economy" stores of the Great Atlantic and Pacific Tea Company which is described in the following paragraphs:

"An interesting experiment in chain store business is now being carried on by the Great Atlantic and Pacific Tea Company in many of its stores in Greater New York in an endeavor to bring about a lowering of the cost of living by removing many of the

services which have increased the overhead and resulted in higher cost of products.

“The Atlantic and Pacific Company by the very nature of its distributing power has been in a position to secure and take advantage of liberal discounts. The purchase of commodities in thousands of cases, against the tens or hundreds taken by the small grocer, no doubt has enabled the seller to offer the corporation a good reduction in price. For years past the Atlantic and Pacific Company secured all these advantages of business conducted on a large scale but did not spread these savings over the price of the article to the consumer. Instead, the saving was added to the profit, and it is the opinion of grocery authorities that this was one of the main sources of the A. & P. profits. . . .

“It was then planned to establish so-called economy stores at which the consumer would receive part of the savings accruing from buying in large quantities. These economy stores were to be operated with the smallest overhead possible. Gaudy fixtures were eliminated from consideration. Instead, soap, canned goods, etc., are sold direct from the boxes in which they are packed by the manufacturer, the boxes being neatly arranged along the walls of the store. No delivery service was to be given to the purchasers regardless of the amount of the purchase. This feature has resulted in an actual return of the market basket. Housewives buying groceries for the week have turned to small wagons drawn by children, thus making means of delivery.

“The so-called economy stores are operated with a view to keeping expenses down to a minimum. For instance, instead of having a cashier to make change, the manager of the store, in addition to waiting on the counter, handles all money, making change for the other clerks. At noontime the store is closed while all the employees, three or four, go out to lunch. The store is reopened at one o'clock in the afternoon, and closes promptly at seven at night.

“How the new stores reduce the cost of living has been proved by the many complaints made by retail grocers in the vicinity of these stores. These grocers, who offer such services as delivery of goods, calling for orders, and filling orders over the telephone,

have ascertained that the housewife has become aware of the fact that these services add to the cost of the goods purchased. Close investigation has shown that the so-called economy stores, instead of being mere neighborhood stores, have really become district stores. That is, instead of drawing trade from a vicinity of a few blocks from its location, it has been proved that trade has been secured up to half a mile from these stores.”¹

This discussion of the simplification of functions has been chiefly confined to merchandise of class C. This is the class in which the burden of superfluity and ill-adjustment is greatest, and the room for improvement largest. In principle many of the ideas will hold good in the other two classes. Here as well as in class C are to be found useless services becoming accepted as necessary, and costly devotion to worn-out devices being allowed to hamper the rendering of essential tasks.

No attempt is made here to offer a solution of this enormously complicated group of problems. The most that is hoped for is that this discussion may point the way toward a new attack on them. The elimination of certain functionaries may attend the process of solution; the rearrangement of relations between them probably will. Real progress, however, has not come from efforts to bring to pass these results of mere elimination of functionaries as an end in themselves. Constructive results will follow from a nicer adjustment between the tasks of marketing and the mechanism for their performance. The starting point toward solution is first an appreciation of what the functions of merchandise distribution are. A second step is to acquire

¹ *New York Journal of Commerce*, March 4, 1915.

some realization of their cost with relation to their value. Then the process of selection, elimination, and readjustment may be expected to follow. The results cannot now be forecast.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book III, Chapters XI and XIV.

W. W. Cumberland, *Coöperative Marketing*, Chapters I, IV, VII, VIII, XII.

G. H. Powell, *Coöperation in Agriculture*, Chapters II, IV, VII, VIII.

U. S. Dept. of Agriculture, *Bulletin 547* — entire.

P. H. Nystrom, *Economics of Retailing*, Chapter XX.

QUESTIONS AND PROBLEMS

1. In a recent address in Boston, an official of the United States Bureau of Foreign and Domestic Commerce urged the establishment of a wool auction in Boston as a part of a plan for making Boston the “world center of the wool trade.”

(a) State fully your reason for believing that such a project would or would not be:

(1) desirable,

(2) feasible.

(b) Granting the establishment of such an auction and the success of Boston in establishing a position as the “world center of the wool trade,” what changes could be expected in the wool trade of this country and the methods of conducting it?

CHAPTER XVII

THE COMPONENTS OF A RETAIL PRICE

THE foregoing discussion of distributing functions, and the contrast which has been brought out between these functions and the mechanism of distribution which has grown up in certain familiar cases, raises a question of a sweeping character. Of the elements of cost which together constitute what is paid by the final buyer for the article brought to him by the distributing mechanism, how many are indispensable or even wholly desirable in all cases? In other words, to what extent is a distributing mechanism, the origin of which is largely historical, nicely adjusted to the exacting demands of rapidly changing conditions of production and consumption?

This is a particularly pressing question in connection with goods for retail distribution. For example, it is evident that the combined cost of distributing such commodities as staple groceries, amounting in many cases to as much as the factory price of the goods, is relatively high. At the same time, it is evident also that neither by betterments in operating methods nor the elimination of waste is it feasible to reduce greatly these distributing costs. There has been much discussion of the possibility of reducing these costs by the elimination of such services as the delivery of the goods,

telephone orders, and monthly charge accounts. There has, however, been little attention given in these discussions to any of the effects of these eliminations, except in the reduction in the retailers' cost of doing business. It may be assumed that with such economies there would be some reduction in the retailers' cost of doing business, and that, under competitive conditions, a portion at least of this saving would be transmitted to the consumer. Thus far, however, there has been little to show whether all classes of consumers can equally well afford to make these economies, nor has there been any attempt to determine whether for all classes of consumers these are the services rendered by the retailer which can best be dispensed with. The fact that even under stress of war times so large a portion of the population failed to take advantage of the suggestions that these services be eliminated seems to indicate some obstacle more serious than mere inertia. The probabilities are that many intelligent consumers are convinced that these economies for them would not be profitable.

As a matter of fact, these criticized services have not, so far, been so much of a drain on the consumer as they have been upon the retailer who renders them. Competition will not permit the retailer to charge all of the cost of rendering these services to the consumer and by just that much the consumer gains. It would seem to be a fair question whether it would not be more in the interest of the public for the retailer to attack the problem of reducing the cost of rendering these services rather than to try to educate the consumer to dispense with

them. After the costs of rendering these services have been reduced to a minimum the retailer still will have a large field for cost reduction in the elimination of service less vital to the consumer than are these.

The following table reproduced from one prepared by Wheeler Sammons¹ from the records of the costs of a large number of grocery concerns, covering the cost of doing business in this trade, ought to offer some suggestions as to the reduction of cost worth consideration.

	PER CENT
Rent	3.07
Salaries	8.46
Advertising	.83
Heat and light	.39
Delivery	2.53
Supplies	.37
Insurance and taxes	.58
General expenses	.45
Depreciation and expenses	.76
Bad debts	<u>.47</u>
	17.91

Granting that the figures give a moderately accurate idea of the situation, they naturally raise the question why so little attention is paid to attempting to reduce the costs in the items of rent and wages, which are by far the largest of all. And they also raise the question why so much of the attack upon retailing costs has been confined to some of the smaller and more necessary elements of the retailer's cost of rendering the services he is supposed to perform. To be sure, in some lines, high rent and skilled sales force are an essential part of

¹ Wheeler Sammons, Keeping Up with Rising Costs, pp. 21 and 39.

trading. But why, for instance, should package groceries be sold over mahogany counters behind plate glass windows on corners paying high rental, and why should they be taken from the shelf and handed to the consumer, or put into the consumer's delivery basket, by a forty-dollar-a-week salesman? These services might be valuable in some lines. But how valuable are they in such lines as this? This point has already been raised in connection with the discussion of a phone order grocery store (Chapter XVI).

The final price which the consumer pays for an article, under competitive conditions, tends to represent the sum of the prime cost (materials and labor necessary for its production) and the cost of handling it and a fair profit for every one who plays a necessary part in moving it from the time and place of its production to the time and place of its final consumption.

50			15		35	
<i>Prime Cost</i> 25	<i>Manufacturers Cost of doing business</i> 22	<i>M P</i> 3	<i>Wholesalers Cost of D B</i> 13	<i>W P</i> 2	<i>Retailers Cost of doing Business</i> 25	<i>Retailers Profit</i> 10

FIG. 7

In this diagram has been represented, somewhat arbitrarily, an approximate division of the price which the consumer pays for say some standard article retailing at a dollar. Suppose, for the sake of simplicity, that the article is of relatively small bulk for its value so that the transportation charges will be absorbed in the purely commercial costs. The first half of the total

is represented as being made up of the prime costs (\$.25) and of the manufacturer's cost of doing business (\$.22), and his profits (\$.03), making the price at which he sells the article to the wholesaler \$.50. If for the sake of argument there could be definitely assigned a proportionate share of the wholesaler's cost of doing business, to this article, say \$.13 and his profit \$.02, this would bring the price to the retailer up to \$.65. The retailer on the other hand has a cost of doing business of 25 per cent on his selling price so that \$.25 would represent his handling cost for this article and his profit would be \$.10.

Prime cost		\$.25	
Manufacturer's cost of doing business		.22	
Manufacturer's profit		.03	
Price to wholesaler			\$.50
Wholesaler's cost of doing business		.13	
Wholesaler's profit		.02	.15
Price to retailer			.65
Retailer's cost of doing business		.25	
Retailer's profit		.10	<u>.35</u>
Price to consumer			<u>\$1.00</u>

By summing up these principal subdivisions it appears that the prime cost represents 25 per cent of the final price, the commercial costs 60 per cent, and the combined profits 15 per cent, $\frac{1}{3}$ of which went to the producer and wholesaler while the remaining $\frac{2}{3}$ went to the retailer.

The retailer, under ordinary circumstances, handles only a comparatively small portion of the total output of any particular manufacture, and therefore his profit of 10¢, which appears large, is obviously not as great

in proportion as is that either of the wholesaler or of the manufacturer. So, too, with his cost of doing business, it is necessary to remember that he is handling the goods only in comparatively small quantities and that therefore his cost of doing business must be proportionately heavier.

Thus far an effort has been made to make two points clear. The first is that there may be no economy to a consumer in foregoing a valuable service, while there may be distinct economy in foregoing a service which is rendered but which is not needed. The second point is that the price which the consumer pays tends to represent the cost of the original materials plus the cost of all commercial services and the profits of those who render these services. The cost of none of these services is absolutely rigid, and there is a good deal of elasticity possible in the relation between the cost of doing business in any one step and the profits in that step. If, for example, in the diagram as we have it we could conceive of the retailer's cost of doing business increasing to say 28¢, it might be that a portion of the extra 3¢ would be taken from the retailer's profits when competitive conditions would not permit him to transfer all the burden to his customers.

These two points make it clear that the complicated service which is rendered by the commercial mechanism for the consumer is the most costly element in the consumer's price, and this makes particularly vital an examination of what service actually is paid for by the consumer in comparison with a study of the question of what service actually is rendered to the consumer.

This form of presentation of the components of a final price is open to some risk of misinterpretation. The difficult feature to keep in mind is the fact that each step in the distributing process must calculate its "mark-up" on a new figure and that the various advances in price between producer and consumer are not in actual practice based on the final price to the consumer. By returning to the illustrative figures used above, this point can be made clear. The manufacturer, for example, does not figure his price as a mark-up of 25 cents, his figures are made in percentages of his selling price. In the same way the wholesalers do not mark up their varied products by arbitrary additions of so many cents, but as percentages of their selling price, which, on all the products they handle taken together, will cover their cost of doing business and profits; and all of these they are obliged to figure on their selling price to the retailer as a basis. Similarly, in turn, the retailer is compelled to figure his costs of doing business on his selling price and in his case alone is the selling price represented in this instance by the full 100 cents paid by the consumer. This fact accounts for much of the failure of the public to appreciate the inherent fairness of some of the recent increases in the prices charged by the retailers which appear excessive in comparison with production costs. It is difficult for the consumer to understand, for example, that if there is a doubling of prime costs, say from 25 to 50 cents, this cannot be covered by a mere 25-cent increase in the final price to the consumer. Such an increase, of course, means that even at the same percentages of costs of doing business all along the line

the consumer's price will be increased far more than the 25 cents, since the basis of calculation throughout has been increased. When to an increase in prime costs there is also added an increase in operating costs for distributors, the rise in the various intermediate prices as well as in the final price is of necessity enhanced. The wool grower, therefore, who argues that an increase in the price of raw wool from 30 cents to 70 cents has only added approximately \$5 to the price of a suit of clothes, is neglecting the whole disturbance of distributing costs due to this increase; and in the same way any figures to show that the increase in the cost of mill labor in a suit length of fabric is negligible, are wholly misleading. The percentages of distributing cost are not lowered at anything like the rate that such statements imply by merely increasing the value of the commodities carried. They tend rather to remain fixed, in normal times, and even to increase in times of inflation. Indeed, they can be lowered only by decreasing the quantity or cost of the services they represent; and if the outlay in the stock of merchandise sold is raised, this increase must bear its proportionate share of these costs of doing business. These will be figured in fixed or increasing percentages calculated on the basis of the enhanced selling prices.

If we put all the distributing costs together the diagram of the chief components of the consumer's price could be represented as on following page.

The central problem in distribution may be summed up as an effort to decide which of these elements of service, and the corresponding elements of cost, may be

eliminated for individual cases or for general types of distribution, and which are indispensable, and whether the indispensable services are being rendered in the most economical way, regardless of tradition. This latter question will be solved only as a result of a long process of cost keeping and the comparison of figures obtained by the use of systems of accounting based on generally accepted general principles.

<i>Material Cost</i>	<i>Conversion Cost</i>	<i>Cost of assembling, grading, storing, moving, financing, assumption of risk and offering for sale.</i>	<i>Profit</i>
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FIG. 8

The principles underlying the ascertainment of costs, both in production and distribution, are comparatively simple, and are fairly widely accepted without material variation. To be sure there are controversies over the method of treatment of such items as interest on investment, but generally speaking, systems of accounting such as those prepared by the Bureau of Business Research, of the Graduate School of Business Administration, of Harvard University, and the system prepared by the Federal Trade Commission, and that issued by the Federal Reserve Board, as well as the systems prepared by various private enterprises and by associations, all agree in their general principles. Such differences as exist between them are chiefly concerned with

matters of detail and do not materially modify the general conclusions which may be based upon them.

The system of accounts which has been worked out by the Bureau of Business Research at Harvard University is in many respects the recognized standard for the other systems which have followed, and for that reason it has been considered advisable to incorporate at the end of this volume the summary of the figures which the Bureau has compiled in various lines of trade.¹

As a problem in merchandise distribution what really concerns the public at large is not so much the development of methods by which any particular type of distributor can make a safer profit, nor is it even concerned with the question whether any special form of distributing mechanism shall continue to exist. What really concerns the consuming public, and what is therefore to be the determining factor in the solution of all these problems, is the devising of some method by which those functions which are regarded as necessary may be performed satisfactorily without undue waste.

Every attempt to improve the methods of distribution made in recent years may be regarded as an effort to solve this problem. One of the most serious handicaps to their success has been the failure to keep clear the nature of the problem without giving undue weight to tradition.

These graphic representations of the component parts of the final price call for mention of one other

¹ The accounting systems on which these figures are based are available at the Bureau for a nominal charge.

factor of the distribution task. That is the relation between the prices charged for each unit and the profits included in those prices on the one hand and the volume of sales on the other. The failure to regard this element is one of the chief fallacies in many efforts to promote direct sale from producer to consumer. To use an exaggerated case to make the point clear, suppose a producer grew one single peck of carrots. He could perform all the necessary distributing functions and deliver the carrots direct to a purchaser, say, a thousand miles away. The cost of course would be enormous. On the other hand a trainload of carrots could be delivered in the same way at an almost negligible cost per peck. But carrots can be grown most economically neither by the single peck, nor by the trainload; in one case the producing unit is too small and in the other case too large for the greatest economy in production. Mere directness of distribution, and mere large-scale production or distribution clearly do not offer a satisfactory solution for uneconomical distribution; the real solution is an adjustment of the successive processes of production and distribution so as to secure the most economical operation of each, or at least the greatest aggregate economy. The profits in each of these steps tend to have a definite relation to the market value of the brains required for conducting the operation. Production profits per unit are small when the volume of production which can be economically conducted is large. Wholesaling profits per unit also are small per unit. Retailing profits, while often large per unit, and large in relation to other elements of the

final price, are in a large measure dependent on this element of the volume of sale, or, as it commonly is called, the speed of "turnover." In the case of yeast cakes, for example, where the sales are numerous and quick, the profit of the retailer is very small per unit. In the case of jewelry, on the other hand, the retailer's profit per unit must be large.

This relationship between the make-up of the final price and the volume of sales accounts for the fact that the most noteworthy progress in the betterment of distribution has been in the "quick turning" lines. Chain stores have thriven in the grocery business and in the 5 and 10 cent lines. These and kindred types of goods offer a chance for large savings in the costs of rendering services and a widening of the profit margin, which while small per unit, make a large aggregate return. But more important still is the chance they offer for speeding turnover. Coöperative stores, on the other hand, have had difficulty in making any saving in operating cost, and they have done little to increase turnover. Where successful their savings and added profits have come from betterments in methods of buying or in the curtailment of services. Their weakness has been in the fact that their scale of operation is so nearly like that of their "regular" competitors. Thus far the coöperative movement in this country has not been able to secure the great advantage which has come to the British coöperative movement; for instance, through the federation of their wholesaling operations in the Coöperative Wholesale Society.

Real progress in the betterment of distribution and

in the reduction of distributing costs may be expected to come not from these minor changes in distributing costs or even in the speed of turnovers, but from a better and more economical performance of functions, and, — as has repeatedly been said, — from a critical selection of them with a larger disregard of traditions than hitherto has been common.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book II, Chapters VI and VII, Appendix F.

P. H. Nystrom, *Economics of Retailing*, Chapter XI.

QUESTIONS AND PROBLEMS

This entire chapter and the following one are chiefly made up of questions and problems. What is suggested here may profitably be expanded in the indicated field. Similar analyses of the relative value of various services to different classes of customers might be worked out for almost any type of business, wholesale or retail.

CHAPTER XVIII

THE COSTS OF DISTRIBUTION

To pile up evidence that the costs of distribution are high in most lines of merchandise is comparatively easy and not particularly significant. The tasks imposed on the distribution system are complicated and they must be paid for. The excessive totals represent in most cases only a fair return for the services rendered. This, however, does not alter the fact that economies in distribution are imperative and that they promise large returns to those who can bring them to pass, as well as to society at large. In a large measure the rewards which were open during the past generation to inventors of mechanical devices for saving labor and for bettering production are open to those who during the next fifty years devise methods for performing better and more economically the task of merchandise distribution.

The work of improvement has already begun. Indeed it has always been under way. But of the many "solutions" thus far devised each has proved to be merely an improvement, or at least a change, in some one small department. The department store has proved a valuable device for handling large volumes of highly risky merchandise with great rapidity in dense markets. Its great triumph has been in the field of merchandise

in which the style hazard is large. Incidentally it has shown the way to many other types of distribution in matters of organization and management and in the matter of skillful buying on a large scale. Not the least of its positive contributions has been its use of mass phenomena as a basis for working out standards of operation and in the planning of stocks to reduce waste from poor forecasts of the wants and the absorbing power of the market.

The specialty store has been one of the inevitable products of the application of many of the lessons learned in department store operation to the task of retailing conducted on a smaller and more intensive scale.

The chain store has introduced many new ideas and has adopted many from other sources, particularly from department stores. Concentrated buying, centralized control, standardized operation have been combined with an attempt to keep the old small-scale stores, direct and more completely personal contact with consumers.

Federations of retailers like the United Drug Company have in turn combined many of the ideas of the chain stores with an even greater emphasis on the personality of the retailer. And for the autocracy of control by the centralized administrative organization of the chain store it has substituted a degree of democracy in management which, to say the least, is a supremely interesting American experiment.

Retail branches operated by manufacturers on the whole have been the least resultful of the large movements for the betterment of retailing. In a few cases

they have been successful and profitable to their owners. Generally speaking, however, they have not reduced prices to the consumer. Notwithstanding the seductive appeal of the directness of contact between manufacturer and consumer, the experience of their operation apparently has indicated that it is extremely difficult for a well-run producing organization to control at the same time an economical and effective distributing mechanism beyond the point where the merchandise moves at wholesale. The experiment of a retailing organization owned and operated by a federation of manufacturers producing a fairly complete retail line never has been tried, but in some ways it offers a promising means for offsetting some of the difficulties which have beset this particular type of retail outlet.

Coöperative retail stores owned and run by consumers have not in this country met with the success that apparently has attended similar enterprises in Europe. Some reasons for this have been suggested. The essential difficulty apparently has been the inability of this form of organization to effect any real economies in performing the necessary distributing functions on the scale on which it has been tried. The coöperative organization probably will play an increasingly important part in future betterments of American distributing methods. But as a principle it has little to offer either in the elimination of distributing functions or in the reduction of their cost. It is conceivable that a federation of coöperative organizations of producers dealing with coöperative organizations of consumers on a sufficiently large scale, and paying the market price for the

type of brains necessary for management, might offer some opportunity for economy and reduction of costs. But this, again, is an experiment as yet untried on a plan sound in principle and with an eye single to economic and efficient operation.

Mail order retailing has been the one other noteworthy effort to "revolutionize" retail methods. There is a seductive power in printed descriptions of merchandise which has been capitalized to good advantage, especially in reaching those to whom easy access to the merchandise itself is not open. The huge size of the mail order market in this country has offered rich rewards to concerns organized and operated in a fashion to take advantage of it, and disposed to offset as far as possible the disadvantages and risks of absentee purchasing by consumers. There is little evidence to indicate that on the whole the costs of performing the distributing function by this method are consistently less than by some of the other methods, particularly when they are well conducted. Nor is there any evidence, on the other hand, that mail order houses have consistently sold on as small a margin as they could if they were obliged to. It is certain that some of the mail order "leaders," like cream separators for example, have been good articles sold at less than the going market price. But this is not conclusive evidence of economy in distribution. These leaders may have been bought or made at a price yielding no producing profit. They may even have been made and sold without adequate distributing profit for their value in inducing other more profitable sales. In any case the mail order

house is here to stay, and its competition has put other distributors on their mettle in a way which, at least in some instances, has been wholesome.

On the whole the greater part of retail distribution still is performed by what is known as "regular" retailers. Their competition between themselves and with these other forms of retailers has yearly grown more spirited. Old methods have persisted; expensive traditions have survived, but over any appreciable space of time it is evident that the process of natural selection is going forward and that the fittest who survive are those who come nearest to filling the needs of the consuming public and who do it with the least waste.

Of all opportunities for betterment in the retail field, that of more accurately adjusting the mechanism to the newer phases of the retailing tasks is the most promising. And throughout this end of distribution it is manifest to all who are familiar with the problems in hand that the great effort-saving devices (such as are represented by advertising) for expediting the work of distribution or, in other words, the work of completing the contact necessary to effect the transfer of ownership, are permanent and valuable features of the modern methods.

In the wholesale types of business the same sort of breakup of the old forms is in progress. Trade currents continually change; wholesalers take on new forms. Their relations with each other, with their sources and with their customer, are constantly undergoing change. The necessary functions to be performed on a wholesale scale are in the main well done. And

yet there is no phrase more common in discussions of merchandise distribution than that calling for the "elimination" of the wholesaler. As the characteristics of the necessary functions of merchandise distribution are more clearly appreciated, the probabilities are that it will be more clearly understood that in this part of the distributing task the chief problem is not the preservation of old forms, but rather the economical adjustment of the mechanism to the work in hand. The development of specialty jobbing houses, the increase in the drop-shippers in certain trades, and the huge expansion of the scale of operations of those general jobbing houses which try to compete with the new forms, all indicate the intensive character of the wholesale business under modern conditions. The control of outlets and the ownership or control of sources of merchandise, and the expansion of the use of jobbers' brands in some cases to cover a nation-wide market all serve to make clear the fact that there is plenty of room for successful operation of wholesalers coming between retailers and producers provided they can, by intensive knowledge of some one market or by intensive selling of a restricted line of goods, really perform the necessary functions more economically or more satisfactorily than they can be performed by producers or retailers.

Those distributors who distribute merchandise of classes A and B are not escaping from the general spirit of change which pervades all distribution of merchandise of class C. To a large extent the old personal ties and bonds of favoritism which formerly determined many sales of materials for remanufacture and for

equipment have been minimized as a factor in trade. The pressure of competition has forced close buying on all well-managed concerns. Wherever possible free play of all the influences of supply and demand has been sought in determining prices and the essential distributing tasks more than ever before have been standardized in form and cost.

It is not likely that merchandise distribution ever can be reduced to simple or uniform types. It is not desirable that this should be so. Neither is it desirable that in the several parts of distribution there should be a large number of types struggling to prove their exclusive right to do all the business in their own way. Notwithstanding all the waste and costliness of the present methods they are effectively performing the necessary tasks in a creditable fashion. The main danger in them is that the public may be led to regard any one of them as a fixed and inviolate institution, and remain content to pay the costs of its operation in a spirit of loyal sacrifice. No distributing device is permanent; most of them are of fairly recent origin in their present form. The distributing functions are the durable elements of the problem. The ability of any distributing device to perform them efficiently and with a minimum of waste will measure its ability to expand or survive.

Much progress toward the attainment of really effective distribution of merchandise will follow the ascertainment of the real facts regarding costs of operation of typical functionaries. But beyond this there is much to be gained by a clarifying of our ideas of what is really

involved in the work of distributing merchandise under modern conditions. By as much as the transfer of ownership of the merchandise in process of distribution is supplemented by other tasks there is need for attention to the nature of those tasks. There is need also for a tangible basis for determining the extent to which they are necessary, the degree to which they are economically performed, and the accuracy with which they are adjusted to the real needs of those who must pay for them.

COLLATERAL READING

Bureau of Business Research, Harvard University — Bulletins.
Alfred Marshall, *Industry and Trade*, Appendix F.

U. S. Federal Trade Commission, *System of Accounts for Retail Merchants*.

U. S. Federal Trade Commission, *Fundamentals of a Cost System for Manufacturers*.

U. S. Federal Reserve Board, *Uniform Accounting*.

APPENDIX

The following tables showing the cost of doing business in various types of store are from the bulletins issued by the Bureau of Business Research, Harvard University.

BULLETIN NO. 1

SUMMARY TABLE OF PERCENTAGES — RETAIL SHOE STORES, 1913¹

ITEM	LOWEST PERCENT- AGE	HIGHEST PERCENT- AGE	PERCENTAGE ABOUT WHICH DATA CENTER (Not an Average)	PERCENTAGE ABOUT WHICH A CONCENTRATION IS SUFFICIENT TO INDICATE A REAL- IZABLE STANDARD
Gross profit, includ- ing discounts . . .	20	42	Low grade 23-25 High grade 30-33	
Total operating ex- pense not includ- ing freight and cartage and in- terest	18	35	Low grade 23 High grade 27	Low grade 20 High grade 25
Buying expense . . .	0.8	1.8	1.1	1.0
Sales force	5.8	10.3	8.0	7.0
Advertising	0.0	8.8	2.0	1.5
Deliveries	0.0	1.4	0.6	0.4
Rent	1.8	14.6	5.0	3.0
Interest	1.0	7.9	2.5	2.0
Stock-turns	1.0	3.6	1.8	2.5
Annual sales of av- erage sales person	\$5,000	\$16,500	\$10,000	

¹ These figures have been superseded by those in Bulletin No. 10 quoted below. They are included here for purposes of historical comparison.

BULLETIN NO. 5—1915

SUMMARY TABLE OF PERCENTAGES AND OTHER FIGURES FOR RETAIL GROCERY STORES¹

ITEM (For percentages, Net Sales = 100%)	Low	High	Common	STANDARDS ATTAINED BY A GROUP OF MORE EFFICIENT STORES
	%	%	%	%
Gross profit on merchandise . . .	14.6	27.9	21.0	—
Salaries and wages of buying force . . .	0.1	2.4	0.5	—
Other buying expense	0.0	0.5	0.02	—
Total buying expense	0.1	2.4	0.5	—
Salaries and wages of sales force . . .	3.5	10.6	6.5	5.0
Advertising	0.01	1.8	0.1	—
Wrappings and miscellaneous selling expense	0.03	1.4	0.4	0.3
Total selling expense	4.5	10.8	7.0	5.5
Wages of delivery force	0.6	3.5	1.5	1.0
Other delivery expense	0.3	3.4	1.5	1.0
Total delivery expense	1.1	5.9	3.0	2.5
Management and office salaries . . .	0.3	3.8	1.5	—
Office supplies and expense	0.01	0.4	0.1	—
Total management expense	0.4	4.0	1.7	—
Rent	0.3	4.1	1.3	0.8
Heat, light, and power	0.1	0.8	0.2	0.15
Insurance on stock and store equipment	0.03	0.5	0.1	—
Taxes	0.01	0.5	0.1	—
Repairs and renewals of store equipment	0.01	1.4	0.1	—
Depreciation of store equipment . . .	0.03	0.9	0.2	—
Total fixed charges and upkeep expense	0.8	5.6	2.0	1.5
Telephone	0.04	0.6	0.2	—
Ice and cold storage:				
Groceries only	0.01	0.6	0.1	0.1
Groceries and meats and provisions	0.03	0.7	0.3	0.2
Other miscellaneous expense	0.01	1.2	0.1	—
Total miscellaneous expense	0.1	1.4	0.5	0.3
Losses from bad debts	0.01	2.2	0.5	0.2
Total of expense statement	10.4	25.2	16.5	13.0
Net profit from merchandise operations	Loss 3.3	11.0	2.5-5.5	—
Interest	0.2	1.7	0.8	—
Number of stock-turns a year:				
Groceries only	3.5	23.8	7.0	12.0
Groceries and meats and provisions	7.0	26.4	9.0	14.0
Average annual sales per sales person	\$5,000	\$20,000	\$10,000	—

¹ This summary includes stores which sell groceries only, and also stores which sell both groceries and meats and provisions.

BULLETIN NO. 9 — 1917

OPERATING EXPENSE IN THE WHOLESALE GROCERY BUSINESS —
SUMMARY

ITEM (For percentages, Net Sales = 100%)	Low	High	Common
	%	%	%
Gross profit	7.7	17.2	12.0
Total sales-force expense	0.93	4.3	2.3
Advertising	0.0	1.19	0.07
Other selling expense	0.01	0.45	0.06
Total selling expense	1.2	4.53	2.5
Salaries and wages of receiving, ware- house, and shipping force	0.43	2.0	1.15
Packing cases and wrappings	0.01	0.73	0.04
Outward freight, express, parcel post- age, and cartage	0.01	2.1	0.4
Total receiving, handling, and ship- ping expense	0.8	3.22	1.6
Salaries of buying force	0.05	1.05	0.35
Other buying expense	0.02	0.26	0.03
Total buying expense	0.05	1.05	0.4
Executive salaries	0.16	1.21	0.5
Office salaries	0.19	1.54	0.7
Postage and office supplies	0.05	0.48	0.23
Telephone and telegraph	0.01	0.25	0.05
Credit and collection expense	0.01	0.57	0.06
Other management expense	0.02	0.42	0.1
Total general management and office expense	1.15	3.15	1.65
Total interest	0.4	3.03	1.5
Rent	0.17	1.05	0.4
Heat, light, and power	0.01	0.2	0.05
Taxes	0.02	0.75	0.2
Insurance (except on buildings)	0.03	0.58	0.11
Repairs of equipment	0.01	0.49	0.05
Depreciation of equipment	0.001	0.5	0.1
Total fixed charges and upkeep expense	1.31	4.62	2.5
Miscellaneous expense	0.01	0.92	0.11
Losses from bad debts	0.002	1.66	0.3
Total expense	6.7	13.74	9.5
Net profit	1.13 Loss	7.01	2.4
Stock-turn	2.8	11.6	5.7

BULLETIN NO. 10 — 1918

OPERATING EXPENSES IN CHAIN SHOE STORES

Net Sales = 100%

ITEM	LOWEST	HIGHEST	COMMON
	%	%	%
Gross profit on merchandise	12.5	45.5	28.4
Total buying expense	0.2	2.95	0.95
Salaries and wages of sales force	2.5	16.5	6.9
PM's	0.03	2.1	0.5
Advertising	0.0	16.3	2.3
Wrappings and miscellaneous selling expense	0.02	1.0	0.15
Total selling expense	4.7	33.0	9.85
Delivery expense	0.0	5.5	0.37
Management and office salaries	0.08	5.0	1.6
Office supplies and expense	0.01	1.2	0.1
Total management expense	0.11	6.0	1.7
Rent	1.33	27.8	8.6
Heat, light, and power	0.12	3.5	0.9
Insurance	0.08	1.88	0.3
Taxes	0.01	2.04	0.15
Repairs and renewals of equipment	0.01	4.4	0.15
Depreciation of equipment	0.1	8.9	1.0
Total fixed charges and upkeep expense	1.55	33.5	11.1
Miscellaneous expense ¹	0.1	8.8	0.6
Total expense	9.85	57.6	24.6
Net profit from merchandise operations	31.9 Loss	20.3	3.8
Total interest	0.53	7.4	2.5
Stock-turn	1.1	4.6	1.7

¹ Includes losses from bad debts — small expense for these stores.

BULLETIN NO. 10 — 1918

OPERATING EXPENSES IN SHOE DEPARTMENTS OF DEPARTMENT
STORES

Net Sales = 100%

ITEM	LOWEST	HIGHEST	COMMON
	%	%	%
Gross profit on merchandise	12.6	39.1	28.1
Salaries and wages of buying force	0.39	3.44	1.15
Other buying expense	0.01	1.92	0.25
Total buying expense	0.67	3.67	1.4
Salaries and wages of sales force	4.92	13.5	8.4
PM's	0.07	2.5	0.65
Advertising	0.49	7.3	1.9
Wrappings and miscellaneous selling expense	0.02	1.5	0.35
Total selling expense	7.2	18.9	11.3
Delivery expense	0.25	2.32	0.6
Management and office salaries	0.8	4.0	2.1
Office supplies and expense	0.03	1.98	0.1
Total management expense	1.0	4.78	2.2
Rent	1.5	10.0	3.4
Heat, light, and power	0.2	2.6	0.7
Insurance on stock and equipment	0.18	1.33	0.55
Taxes	0.17	1.35	0.35
Repairs and renewals of equipment	0.2	2.0	0.4
Depreciation of equipment	0.2	1.17	0.4
Total fixed charges and upkeep ex- pense	3.5	11.7	5.8
Miscellaneous expense	0.05	6.0	2.0
Losses from bad debts	0.01	0.26	0.1
Total expense	19.0	33.4	23.5
Net profit from merchandise opera- tions	16.6 Loss	9.82	4.6
Total interest	0.69	11.3	2.2
Stock-turn	0.89	3.1	1.5

BULLETIN NO. 10 — 1918

OPERATING EXPENSES IN RETAIL SHOE STORES SELLING
HIGH-PRICE¹ SHOES

Net Sales = 100%

ITEM	LOWEST	HIGHEST	COMMON
	%	%	%
Gross profit on merchandise	21.3	41.5	34.8
Salaries and wages of buying force	0.56	1.99	1.2
Other buying expense	0.07	0.88	0.28
Total buying expense	0.74	2.06	1.48
Salaries and wages of sales force	7.02	11.65	10.25
PM's	0.41	1.28	0.85
Advertising	0.98	3.57	2.0
Wrappings and miscellaneous selling expense	0.08	0.63	0.17
Total selling expense	9.31	18.1	13.27
Delivery expense	0.0	3.2	2.6
Management and office salaries	1.67	7.58	2.7
Office supplies and expense	0.16	4.3	1.1
Total management expense	1.83	9.4	3.8
Rent	1.98	5.82	2.8
Heat, light, and power	0.16	0.45	0.28
Insurance on stock and equipment	0.43	1.41	0.5
Taxes	0.02	0.38	0.3
Repairs and renewals of equipment	0.36	0.39	0.38
Depreciation of equipment	0.33	1.33	0.54
Total fixed charges and upkeep ex- pense	3.74	7.74	4.8
Miscellaneous expense	0.38	3.76	2.0
Losses from bad debts	0.0	1.34	0.85
Total expense	23.43	32.85	28.8
Net profit from merchandise opera- tions	10.14 Loss	18.22	6.0
Total interest	2.86	2.91	2.9
Stock-turn	0.92	2.33	1.5

¹ Price of men's shoes \$6.00 and over, typical \$7.00 (before the war).
Price of women's shoes \$7.00 and over, typical \$8.00 (before the war).

BULLETIN NO. 10 — 1918

OPERATING EXPENSES IN RETAIL SHOE STORES SELLING LOW-PRICE¹
SHOES

Net Sales = 100%

ITEM	LOWEST	HIGHEST	COMMON
	%	%	%
Gross profit on merchandise	18.3	40.4	25.7
Salaries and wages of buying force	0.24	2.16	0.9
Other buying expense	0.03	0.13	0.08
Total buying expense	0.45	2.16	0.98
Salaries and wages of sales force	4.9	14.2	9.4
PM's	0.0	1.96	0.25
Advertising	0.15	7.65	1.3
Wrappings and miscellaneous selling expense	0.06	0.92	0.15
Total selling expense	7.7	18.68	11.1
Delivery expense	0.0	0.57	0.15
Management and office salaries	0.62	4.4	1.7
Office supplies and expense	0.02	1.18	0.2
Total management expense	0.71	4.6	1.9
Rent	1.51	10.75	3.7
Heat, light, and power	0.36	1.35	0.65
Insurance on stock and equipment	0.12	1.16	0.35
Taxes	0.06	0.98	0.35
Repairs and renewals of equipment	0.06	0.55	0.15
Depreciation of equipment	0.15	0.83	0.3
Total fixed charges and upkeep ex- pense	2.85	12.7	5.5
Miscellaneous expense	0.04	2.92	0.6
Losses from bad debts	0.0	0.87	0.27
Total expense	13.3	32.33	20.5
Net profit from merchandise opera- tions	6.5 Loss	18.5	5.2
Repairing	1.33 Loss	6.53	0.9
Total interest	1.52	6.9	4.0
Stock-turn	0.6	4.77	1.6

¹ Price of men's shoes up to \$3.00, typical \$2.50 (before the war).
Price of women's shoes up to \$3.50, typical \$3.00 (before the war).

BULLETIN NO. 12 — 1919

OPERATING EXPENSES IN RETAIL HARDWARE STORES, 1917-18

Net Sales = 100%

ITEM	LOWEST	HIGHEST	COMMON
	%	%	%
Wages of sales force	3.36	10.8	5.8
Other selling expense	0.1	3.2	0.4
Total selling expense	3.9	11.86	6.5
Delivery expense	0.06	3.82	0.9
Buying expense	0.4	2.81	1.0
Management and office salaries	1.6	5.6	2.5
Office supplies and postage	0.06	1.01	0.3
Total management expense	1.9	5.58	3.0
Total interest	1.11	5.38	3.0
Rent	0.38	7.3	2.4
Heat, light, and power	0.09	1.31	0.3
Taxes (except income and build- ings)	0.16	1.73	0.5
Insurance (except on buildings)	0.14	1.32	0.5
Repairs of store equipment	0.03	1.05	0.17
Depreciation of store equipment	0.04	1.61	0.3
Total fixed charges and upkeep expense	4.8	12.47	7.5
Miscellaneous expense	0.14	3.57	0.8
Losses from bad debts	0.05	2.84	0.5
Total expense	15.74	38.2	20.6

GROSS AND NET PROFIT

ITEM	HIGHEST	LOWEST	COMMON
	%	%	%
Gross profit	40.2	12.75	26.5
Net profit (or loss)	Profit 11.1	Loss 10.2	Profit 6.0

BULLETIN NO. 14

OPERATING EXPENSES IN THE WHOLESALE GROCERY BUSINESS, 1918

Net Sales = 100%

ITEM	LOWEST	HIGHEST	COMMON
	%	%	%
Total sales-force expense	0.41	4.88	2.2
Advertising	0.001	2.33	0.04
Other selling expense	0.001	0.49	0.03
Total selling expense	0.48	7.59	2.4
Salaries and wages of receiving, warehouse, and shipping force.	0.29	2.88	1.1
Packing cases and wrappings . . .	0.01	0.48	0.05
Outward freight, express, parcel postage, and cartage	0.01	2.2	0.4
Total receiving, handling, and shipping expense	0.83	3.09	1.59
Executive salaries (including buying)	0.24	2.66	0.9
Office salaries	0.25	1.57	0.7
Postage and office supplies . . .	0.03	0.38	0.2
Telephone and telegraph	0.01	0.14	0.04
Credit and collection expense . . .	0.001	0.37	0.04
Other management and buying expense	0.01	0.72	0.1
Total general management and buying expense	1.19	3.92	2.0
Total interest	0.42	3.29	1.5
Rent	0.12	0.94	0.35
Heat, light, and power	0.02	0.4	0.06
Taxes (except on buildings) . . .	0.01	0.43	0.2
Insurance (except on buildings) . .	0.01	0.36	0.15
Repairs of equipment	0.001	0.57	0.05
Depreciation of equipment	0.01	1.39	0.14
Total fixed charges and upkeep expense	1.13	4.27	2.45
Miscellaneous expense	0.02	0.5	0.2
Losses from bad debts	0.01	1.71	0.22
Total expense	6.15	14.79	9.1

GROSS AND NET PROFIT

ITEM	HIGHEST	LOWEST	COMMON
	%	%	%
Gross profit	14.9	6.08	11.0
Net profit	Profit 4.74	Loss 0.92	Profit 1.75

A full list of the bulletins issued by the Bureau of Business Research, Harvard University, is as follows :

1. Object and History of the Bureau with Some Preliminary Figures on the Retailing of Shoes.
2. Harvard System of Accounts for Shoe Retailers.
3. Harvard System of Accounts for Retail Grocers.
4. Depreciation of the Retail Shoe Business.
5. Expenses in Operating Retail Grocery Stores.
6. Harvard System of Accounts for Shoe Wholesalers.
7. Harvard System of Stock-keeping for Shoe Retailers.
8. System of Operating Accounts for Wholesale Grocers.
9. Operating Expenses in the Wholesale Grocery Business.
10. Management Problems in Retail Shoe Stores.
11. System of Operating Accounts for Hardware Stores.
12. Operating Expenses in Retail Hardware Stores.
13. Management Problems in Retail Grocery Stores.
14. Methods of Paying Salesmen and Operating Expenses in the Wholesale Grocery Business in 1918.

These bulletins (except Nos. 1 and 5, which are out of print) may be purchased by addressing the Bureau at Cambridge, Mass.

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