THE HISTORY AND EVOLUTION OF VOLUNTARY GROUPS IN FOOD DISTRIBUTION

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THE HISTORY AND EVOLUTION OF VOLUNTARY GROUPS IN FOOD DISTRIBUTION

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PREFACE

This thesis is a study of the voluntary group movement from its inception in the 1920's, and will trace the evolution to its present state of development and successful integration of the wholesaler-retailer concept in mass distribution. The writer will attempt to portray an accurate picture of the independent retail and wholesale grocer of the 1920's and by following the history and progress of the voluntary groups in the last four decades, show how well the independent merchant has progressed under the voluntary group concept.

Through this type of an approach, the author hopes to show that the voluntary group movement is a powerful, successful, and very significant force in the food field. The merchants are a modern, vital part of supermarket development. They are sensitive to the ever-changing, fast pace in retail mass distribution and capably constituted and evolved to more than meet present and future challenges. It is through the concept of wholesaler-retailer cooperation that the voluntary groups have been able to successfully match, or surpass, centrally owned chains.

It is also the purpose of this thesis to direct this work to the attention of the potential as well as the presently active independent business man, and those interested in marketing, that the voluntary group system makes available to the relatively small independent business man the opportunities for a successful retail operation similar to those of the central corporate chains. The voluntary offers the advantages, facilities, and services of the centrally owned chain and in addition preserves for their members the very important and vital added advantage of an efficient owner-operator. As the retail giants get bigger, that important element of personal interest and relationship becomes more difficult to maintain and preserve, as contrasted to the voluntary group merchant who can take quick, appropriate action on the local scene. By combining the flexibility of an owner-operator with the advantages of big business operations through his voluntary group membership, places him at a greater advantage than his giant competitors. The latter have been attempting to minimize and liquidate these advantages held by the independent voluntary groups by decentralizing their operations and permitting greater freedom of action at the important store managerial level.

Part One of this study will be concerned with defining and classifying the voluntary, retailer cooperatives, and centrally owned chains. It will depict the economic and social conditions basically responsible for the origin of the voluntary group movement, and will describe its first three evolutional stages. The influence of the chain store and super market growth will be analyzed, and this development will be augmented by recent historical trends, conditions and data that have evolved in the industry.

Part Two will describe the modern, low-cost wholesaler as a complete supply depot. It will also consider the numerous and vital services that voluntary groups offer to their affiliated retailers, plus the obligations that the retailer must perform as a member of a voluntary group.

Part Three will examine the obligations and responsibilities of the retailer and wholesaler as voluntary group merchants.

In conclusion, the author will tender several predictions that are based on both socio-economic and industry forces, plus some of his own conclusions gleaned from an extensive review of the literature available and interviews with some of the most informed and far-sighted men in the industry.

The evolution and integration of the voluntary groups is truly the success story of the independent business man successfully maintaining himself in the highly competitive market place in mass food distribution. This thesis is dedicated to those individuals who initiated, pioneered, and refined the voluntary group type of distribution to its present effectiveness and efficiency which in 1960 accounted for 42.5 per cent of independent food sales and 26 per cent of the total grocery store sales in the United States.[1]

A further purpose of this study is to broaden the author's knowledge of the food industry. The subject matter has given him the opportunity to visualize and absorb mass distribution by the independent wholesaler and retailer from a historical and operational viewpoint. Combining the completion of graduate study in food chain organization and operation in his college curriculum with this study, has afforded him the broadest insight into our food distribution industry.

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[1]"Facts in Grocery Distribution, 1961," Twenty-eighth Annual Survey, Progressive Grocer, p. F21.

ACKNOWLEDGMENTS

I wish to express my gratitude to my Alma Mater, Michigan State University, for the education that I received. We are the first University to initiate and develop an undergraduate and graduate curriculum in Food Distribution, and this is given within the School of Business and Public Service.

I wish to sincerely thank Dr. Edward A. Brand, at present Assistant Dean of the School of Business and Public Service at Michigan State University, and during my student years Director of the Curriculum in Food Distribution. His counsel and guidance have helped me immeasurable in writing this thesis.

I wish to express my appreciation to Alfred Oppenheim, President of Cressey, Dockham Co., I. G. A. Wholesalers of Salem, Mass., and to Henry Marshall, Editor-in-Chief of "Wholesaler Grocer News," Chicago, Illinois, for the time and valuable information received from them in personal interviews. Also to Herbert Webb, Red & White Stores, Chicago, Illinois, and to W. H. Logenbaker, Director of Store Engineering Department, I. G. A., Chicago, Illinois.

I give my sincerest thanks to the following people and institutions from whom I received a great deal of assistance and whole-hearted cooperation by means of correspondence--

T. G. Harrison and Russell W. Byerly, Chairman and President, respectively, of Super Valu Stores, Super Market News, Progressive Grocer, and Gordon Cook of The Voluntary and Cooperative Groups Magazine.

I now give very special sincere thanks and appreciation to my father, Moses S. Strock. Personal interviews with my father on the subjects of food distribution and voluntary groups gave me a sound foundation and broad insight spanning a period of more than three decades. I am grateful for the benefit of his intimate knowledge and experiences with the subject matter of this thesis and his cooperation and encouragement.

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PART ONE

THE HISTORY OF THE VOLUNTARY GROUP

CHAPTER I

ORGANIZATION AND CLASSIFICATION OF VOLUNTARY GROUPS

Definitions of Voluntary Groups

Voluntary groups are wholesaler-sponsored groups that are "organized on the initiative of a wholesale grocer seeking to bring about a more effective combination of wholesale and retail functions through merchandising affiliation with a selected group of retailers."[1]

Another definition is as follows:

The wholesaler-sponsored or voluntary group is a group of independent retailers, organized by a wholesaler, who agree to buy all or a major part of their merchandise needs from the wholesaler in return for specified services rendered. The sponsoring wholesaler is called a voluntary group wholesaler.[2]

Classification of Voluntary Groups

Craig Davidson, in his book Voluntary Chain Stores which was written in 1930, when the voluntary group movement was still in its infancy, sub-classified voluntary groups according to the following categories:

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[1]M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Company, Inc., 1955), p. 13.

[2]U. S. Department of Commerce, Business Service Bulletin BSB, May, 1957, p. 206.

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The individual voluntary chain, operated by a wholesaler on his own plan, without affiliation of any character, except local cooperatives.

The syndicate voluntary chain (name and plan only) operated by a wholesaler on a franchise plan, with a national name and trademark which is used by the wholesaler in an exclusive territory. Buying is done entirely by each wholesaler individually. [An example is the Nation-Wide Food Stores.]

The syndicate voluntary chain (complete service) operated by a wholesaler on a franchise plan, with a national name, trademark and private brands. As much as possible of the buying is done by headquarters and all wholesale members pool their purchases. Complete merchandising service is rendered.[3]

The two types of syndicated voluntary groups are referred to today as national voluntary groups and are distinguished by the relative degree of control that they exercise over their retail members in the areas of both buying and services. There are four national voluntary groups today, Independent Grocers Alliance, Red and White Stores, Clover Farm Stores, and Nation-Wide Stores. The stock in the syndicate is usually owned by the wholesale members. As stockholders, each member wholesaler has a voice in formulating policy and electing a board of directors. The board of directors usually represents all regional divisions included in the national syndicate.

There are today a substantial number of wholesalers operating as non-syndicated voluntary groups on their own plan

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[3]Craig Davidson, Voluntary Chain Stores (New York: Harper and Brothers Publishers, 1930), p. 6.

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and initiative, the volume of sales comparable to that of many large chains.

Whether an unaffiliated or syndicated type of voluntary is the most desirable today is dependent upon the judgment of each wholesaler and his particular situation. Some of the factors contributing to the wholesaler's decision are as follows:

1. Organizational strength of the wholesaler.
2. Potential ability and willingness of management.
3. Reputation in his territory with his retailers, and his need for the strength and prestige of the syndicate.
4. Rediness of the wholesaler to think and act "retail minded."
5. Resources to supply all the retailers' needs through his own voluntary wholesale house.

Some of the advantages accruing to an unaffiliated voluntary wholesaler are as follows:

1. He can more readily adopt policies for his particular local needs.
2. He is more flexible to changing conditions and needs.
3. He has greater freedom in selecting super market members.

Some of the advantages to be gained by being a franchised national voluntary are as follows:

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1. Gains benefit of national buying power, and the benefits of the prestige of a nationally advertised syndicate label.
2. Gains buying assistance and merchandising benefits in the areas of non-foods and general merchandise, which is a considerable factor today. To an extent, these features are also available to the unaffiliated voluntary groups.
3. Gains the benefits of syndicate headquarters management counsel and assistance.
4. Gains and benefits accruing as a national syndicate develops and improves their national image with the public. This is accomplished by institutional advertising both on a national and regional scale. In addition, the syndicate label is advertised on both a national and regional scale, and is accomplished while promoting sales national and regional in scope.

The ability to successfully develop a national image and still retain the identity of the retailer as an independent local merchant, neighbor, and good citizen, is a powerful weapon with which to woo the consumer. In the area of private label and company image, there are many unaffiliated voluntary wholesalers who have, over the years, developed strong sectional private labels and satisfactory regional images.

The basic difference between the syndicated voluntary group with name and plan only, and the one with complete service was the relative degree of control that they exercised over their retail members. The theory of the loose degree of control was based upon the assumption that the form of the voluntary group was comparatively unimportant and that no syndicated plan for a voluntary group can create a success where it is not deserved.

It was maintained by the supporters of minimum control that the institution is still "the lengthened shadow of a man and it's the man, not the plan, that fails or succeeds."[4]

During the 1920's and the 1930's, when the voluntary groups were in their infancy, the relationship between the independent wholesaler and retailer was based upon varied agreements, which may be divided into four classes:

1. The store purchase contract.
2. The gentleman's agreement.
3. The simple contract covering store signs and advertising.
4. The "tight control" contract.

The store purchase contract provided for the purchase of the store by the voluntary wholesaler and operation thereafter by the previous owner with a division of the profits.[5]

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[4] Ibid., p. 9.

[5] Ibid., p. 25.

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[6] *Ibid.*, p. 25.

The gentleman's agreement was usually in the form of a pledge card as follows:

> I promise to the best of my ability to support the lines of merchandise handled by all cooperators in this plan in consideration of the help they are according to us as individual grocers to meet present competition.
>
> ....
>
> Merchant[6]

The simple contract covering store signs and advertising was the contract of the Nation-Wide Food Stores in the 1930's, and in effect was simply an agreement that the independent retail merchant would pay so much weekly pay for advertising, with provisions for placement and removal of a store sign. The Nation-Wide plan today continues to maintain a "loose control" contract, with added provisions of exclusive franchise of Nation-Wide label, restricted store territory and stipulated fees for services.[7]

The "tight control" contract attempted to cover every phase of the operation of a voluntary group between wholesaler and retailer. The retailer of the 1920's was generally uneducated and many were illiterate. Elaborate contracts, written in lengthy legal form, frightened him and rarely did he understand what he was signing. He understood generally that the wholesaler would give him highly competitive staples at special prices and sell him a sign, some paint, and some form

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[6] *Ibid.*, p. 25.

[7] *Ibid.*, pp. 46-47.

of advertising, but usually he had very little idea of the real cooperative basis upon which the contract was drawn.

Operators of voluntary groups had found in their early dealings and experiences that any type of contract did not automatically result in procedures specified in the contract. If the retail customer did not feel like living up to the contract, the voluntary wholesaler overlooked it and let him have his way. This was obviously an unfair and unsatisfactory situation, and was due at that period, to the weaknesses of the wholesaler developing the voluntary group.

The problem of effective voluntary group cooperation between retailer and wholesaler was not one of a particular type of contract, but one of educating the retailer of that day to the theory and organization of the voluntary, and of the necessity of emulating the chain stores in their more modern methods which resulted in low prices to the consumer. Unless the retailer was thoroughly sold on the very good reasons for cooperating, no contract in the early days was capable of maintaining his cooperation.

The Red and White Voluntary contract was an example of the "tight control" as described in the days of the birth of the voluntary movement. The contract contemplated one hundred per cent purchasing through the wholesaler sponsor, and so far as possible a complete stocking of the Red and White private labels, namely: Red & White, Green & White, and Blue & White brands. While total purchasing from one's supply depot today is an understood and accepted efficient method of purchasing and merchandising, in the 1930's this was considered a revolutionary idea and required much persuasion and persistent application by the wholesaler.

Until the Red & White organization was able to educate its members as to the reasons why it was to their advantage, from a selfish viewpoint, to concentrate all purchases through one wholesaler, and to push the private label brands, there was constant cheating on this score by Red & White retailers in spite of the fact that they had signed ironclad contracts. This situation was not limited to the Red & White organization, but was experienced by every voluntary wholesaler of that era.[8]

The Independent Grocers' Alliance is the outstanding example of the syndicate voluntary group. It was organized specifically as a syndicate, rather than outgrowth of the wholesaler's efforts to establish his voluntary, as was the case with the other syndicated voluntaries. The I. G. A. franchises were definitely the "tight control" type both over the I. G. A. voluntary wholesaler as well as his retailers. The wholesaler was required to pass certain rigid qualifications as to his financial position, retailer good will and his willingness and ability to work along the lines of the

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[8]*Ibid*., pp. 26-28.

franchise. The I. G. A. retailers were required to concentrate their buying through this jobber, agree to remodel their stores under direction of their store engineers, and agree to follow the directon of headquarters. These contracts were revolutionary for the early voluntary days and required a tremendous amount of positive and energetic selling and promotional talent to educate and convince the retailer of that day.[9]

The Clover Farm Stores voluntary, which was organized in 1926 by the Greene-Babcock Company, wholesale grocers of Cleveland, Ohio, spread as a syndicate voluntary to all parts of the country. Cooperation between the wholesaler and retailer in the 1920's and 1930' seemed unnatural. They were suspicious of each other and had dealt at arms length for many years, since the basis for their dealings was exclusively buyer and seller. The closest and continual contact of the voluntary with the retailer gradually taught the retailer that it was only through mutual cooperation that they could successfully fight a common enemy, the chain store. The Clover Farm voluntary franchise called for tight controls over the voluntary and his retailer.[10]

Except for Red & White, the Nation-Wide voluntary is the oldest franchised voluntary today. It was led by Lewis

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[9] Ibid., p. 38.

[10] Ibid., p. 65.

C. Shave of E. C. Hall Company of Brockton, Massachusetts, who was the first person ever to address a wholesalers' convention on the subject of voluntary chains, and took place in Rochester, New York in 1926. Prior to 1928, Mr. Shave organized his first voluntaries under the name of Better Service Food Stores, in Brockton, Massachusetts, and surrounding areas. In 1928 the name was changed to Nation-Wide Food Stores, and franchises were issued to other wholesalers in New England. The first company outside New England to secure a Nation-Wide Food Stores' franchise was the General Grocer Company of St. Louis in 1929, for 13 states in the Middle West.

The Nation-Wide franchise to its wholesalers and to its retail members is one of exceptionally loose control. Quoting Mr. Shave on this theory, during the 1930's, he stated:

> The retailer is free to act as he chooses and he is always his own boss in every situation. Each and every one in this cooperative movement is entirely independent in all business matters. The wholesale grocer selected as the distributor for a given territory is not permitted to contract with, or otherwise force, the independent retailer to bind himself in any way whatsoever. The wholesaler must operate more economically and efficiently in order to keep the retailer's trade. He must give him real service to hold his business because the retailer is at liberty at any time to trade with whom he sees fit, although Nation-Wide retailers find that by trading with one wholesaler they help themselves and the wholesaler to operate more economically.

To quote Mr. Shave further:

> The Nation-Wide plan depends entirely upon the retailer's intelligence and sense of fair play. He is free to think and to do as he pleases, in this fastest growing of all cooperative movements. There are no contracts and he signs but one paper, which permits the Nation-Wide Stores Company to trespass upon the store property in order to

> remove the Nation-Wide sign in the event that the independent falls below the standard of other Nation-Wide Stores or should the retailer sell his business to an undesirable merchant. Except for this, the members of the Nation-Wide Stores are not obligated in any way. They paint their own stores, they have the final say as to how their stores should be run, they adopt any merchandising plan they want, and are in every way independent of other Nation-Wide stores.[11]

While it is true to a limited extent that "It's the man, not the plan, that fails or succeeds," the history of the evolution and integration of the voluntary groups has shown that it was essential to have a well organized plan for both the voluntary wholesaler and his retailers, with definite obligations and tight controls relating to them. The need to meet the chain store competition in the past four decades called for the independents to emulate and duplicate chain store methods. These results could only be obtained by close cooperation of the wholesaler and retailer operating under clear cut and well defined programs, enforced by both the syndicate headquarters and the voluntary wholesaler.

Enforcing a well organized voluntary plan assisted the weaker voluntary wholesaler to develop his wholesale organization and equip himself to sell his retailers on his plans. The contracts that required the retailer to participate in the entire program and subscribe to all the services, gave the wholesaler and retailer the working base needed for them to compete with the chains.

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[11]*Ibid*., pp. 46-47.

The "tight control" contracts, coupled with a consistent and vigorous program of educating the wholesaler and retailer to the advantages and necessity of the voluntary group, was responsible for the eventual progress and development of the movement. To have continued to permit the voluntary plan to be predicated upon the retailer's intelligence and sense of fair play and allowed to do as he pleases would have eliminated the primary needs of the independent merchants, which was direction, supervision, and education under well defined plans placing an obligation upon him as a thinking and progressive merchant associated with a voluntary group.

The unusually strong and progressive wholesaler was capable of developing his own voluntary wholesale house and retail groups and had the foresight and ability to organize and progress on his own without the aid of a syndicated voluntary. There are many independent voluntaries today who are outstanding successes. They, too, have operated under the strict enforcement policy and it is unlikely that they would have been the success they are today if they permitted themselves and theirretailers to vacillate and had not held to high degrees of responsibility.

The high degree of integration of the voluntary of today has come about through the gradual acceptance by the wholesaler and retailer of the necessity of each being held accountable for their contribution to the voluntary system of distribution.

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How Voluntaries Differ from Retail-Cooperatives and Centrally-Owned Chains

A voluntary group is a group of independent retailers, organized by a wholesaler, who agree to buy all or a major part of their merchandise needs from the wholesaler in return for specified services rendered. The sponsoring wholesaler is called a voluntary group wholesaler.[12]

A retailer cooperative group is a group of independent retailers who own and operate a wholesale establishment which is called a retailer cooperate warehouse.[13]

A centrally owned chain is a group of stores organized and created through the use of its capital by combining wholesale and retail functions under one control.[14]

As the early chain stores developed the new idea of non-credit and non-delivery and educated customers to pay cash for their groceries and save through low prices, both wholesalers and retailers, in the beginning, believed that the way to meet chain competition was to imitate chain buying methods. Thus, he could sell as cheaply and put the chains out of business. The chains were receiving quantity discounts and price concessions in return for chain-wide stocking, advertising and display, and the "advertising allowance" was emerging.

This situation was the basis of the formation of the early buying pools. Basing their action on the assumption that buying was the sole advantage of the chains, local retail

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[12] U. S. Department of Commerce, Business Service Bulletin, BSB-206, May, 1957.

[13] Ibid.

[14] Ibid.

grocers developed plans for informal pooling of orders, which, when combined with quantity buying and pool-car buying, resulted in certain instances in substantial reductions in the delivered cost of merchandise. However, if the independent retailer was to obtain the advantages and privileges that the chains were, he must place himself in a position to offer the manufacturers the same reasons for granting them.

So long as they failed to attack the problem of chain store competition in all the areas in addition to buying, these groups were ineffective and transitory. To overcome their handicap, these buying groups moved into merchandising and advertising, but purchased their regular requirements through any source of supply. It then became apparent to these retailers that the success of the chains was due only in small part to purchasing advantages. The success of the chains in innovating new cost cutting methods in their operations proved to the retailer that nothing less than an ability to emulate the chain in all phases would be the answer to meeting this new kind of competition.

Many of these early buying groups found that a logical step in their development was to purchase an existing wholesale house or to form a new one. The individual retailer invested money for the purchase, receiving shares of stock, and thus a retail cooperative was formed. The members of the cooperative vote and elect their officers and board of directors, and usually the board hires the paid manager.

Although voluntaries and cooperatives have many things in common, they are fundamentally two different types or organizations. They both, in their fullest development, seek to accomplish the same thing, namely: to integrate the wholesale and retail functions.

In accomplishing this, there are three basic factors that differentiate them. First, in a voluntary the initiative to organize comes from the wholesaler, whereas in a cooperative such initiative springs from the retailers. Second, the voluntary wholesaler continues to own the wholesale establishment and thus preserves the separate status of the wholesaler and retailer, while the cooperative is organized by establishing its own wholesale house, rather than integrate with a voluntary wholesaler. Third, the cooperative ties the wholesale and retail functions together with the use of their own capital, in contrast to the voluntary. However, there still is the similarity that individual ownership of the retail stores is retained by the individual retailers and not surrendered to the wholesale or central corporation.

The central chain is distinguished from both the voluntary and cooperatives by the fact that the central chain has full and complete control over its retail units, assumes full financial responsibility for such units, bears all the losses of the retail units and supplies all the initial and operating capital for these units and the central warehouse.

The basic difference between the voluntary and the central chain is the separation of ownership of the wholesale house and the independent ownership of the retailer of his store. In a voluntary group the wholesaler does not surrender individual ownership nor does the retailer surrender his ownership.

The voluntary group depends on cooperation which is voluntary and contractual between the wholesaler and retailer as contrasted to the chain store system of combined wholesale and retail functions tied together by capital. The individual store assumes full financial responsibility for its acts. All profit earned by the store is retained by its owner and when a store fails and is forced to close, the loss is borne by the owner and his creditors. None is shared by the voluntary wholesaler except as a creditor, if the retailer owes him money, and none is shared by the other members of the voluntary.

DIFFERENCES AND SIMILARITIES OF VOLUNTARY, COOPERATIVE, AND CENTRAL CHAINS

Type of Organization	How Originated
Voluntary	Wholesaler Sponsored
Cooperative	Retailer Sponsored
Central	Corporation Sponsored

Ownership of Wholesale Warehouse	
Voluntary	Separate independent ownership
Cooperative	Ownership by retailers
Central	Ownership by central corporation

Ownership of Retail Stores	
Voluntary	Individual retail ownership
Cooperative	Individual retail ownership
Central	Ownership by central corporation

Legal Liability for Wholesale Establishment

Voluntary	Separate corporate liability
Cooperative	Separate corporate liability
Central	Corporation liable

Legal Liability for Retail Units

Voluntary	Individual retail owners liable
Cooperative	Individual retail owners liable
Central	Corporation liable[15]

The Four Evolutional Stages of Voluntary Growth

Dr. Rudolph L. Treuenfels, who is Executive Vice-President of the National-American Wholesale Grocers Association and a recognized authority on voluntary groups, has divided the development of the voluntary movement into four stages.

The first stage, which started in the early 1920's, was the initial effort to organize voluntaries. During this first period, both wholesalers and retailers believed that the way to meet the new competition by the economy chain stores was to imitate chain store buying methods. A great deal of emphasis was placed on quantity buying and price concessions. This was the first stage of voluntary group development.

The second stage began in the late 1920's and into the early 1930's. Wholesalers took the lead in organizing voluntary groups. They urged their retailers to change their methods to semi-self-service and other forms of modernization, but progress was limited because of inexperience. The wholesalers failed to organize effectively and lacked men of the

[15] Interview with Moses S. Strock, recognized authority on Voluntary Groups, May 27, 1961.

the right calibre and experience to do the work. During this period there began to emerge the syndicated voluntary, offering wholesalers and retailers merchandising benefits and services aimed to emulate the chains and put the retailer in a competitive position. Remodeling of stores under the direction of a store engineer was requested by the voluntary, and self-service was encouraged.

The third stage started in the late 1930's and lasted until World War II was over. The voluntary wholesaler, by this time, considered his functions in terms of total retailer requirements, with an opportunity to build his own volume through better retail merchandising and services in all departments of voluntary group members. Tighter control was being maintained right down the line, from the syndicate headquarters to the voluntary wholesaler and to his retailer. This period marked the entrance of the super market into the retail distribution field which created a revolution in mass retailing. The integration of the wholesaler-retailer relationship showed a greater development during this evolutional stage in an effort to be competitive and emulate the new threat--the super market.

The fourth, or current evolutional stage is the present successful integration of the voluntary group. To a great extent, the sharp competition of the super markets of both independents and chains had driven out many of the least efficient merchants, the better ones survived, and the general level of abil

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level of ability was higher. This current period sees the results of evolvement of the steady improvement and extension of the wholesaler-retailer teamwork in the voluntary movement. The formula of progressive wholesaling and the resulting advances in retailing through voluntary groups continued to confirm the fact that the independent retailers affiliated with these groups were making the greatest strides.[16]

The voluntary groups are thriving in this modern supermarketing era. The wholesalers have established modern, low cost warehouses, effectively mechanized with modern office techniques and equipment. They have set up complete supply depots through these warehouses, and supply their retailers in all departments at low prices, which enables the retailers to be competitive. The voluntary wholesaler supplies complete services and modern merchandising and promotional assistance, and guides the retailer through supervisors in store efficiency and management.

The voluntary wholesaler assumed strong leadership and developed the closest cooperation between wholesaler and retailer. This was accomplished by gaining control over the purchasing and operating methods of his retailers and by this means he was able to make his good accounts better and to achieve super market status to share in the sales volume of the retail food business.

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[16]Dr. Rudolph L. Treuenfels, "Voluntaries' Aid Vital in Progress," Supermarket News, March 22, 1954, p. 8.

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Advantages and Disadvantages, Strengths and Weaknesses

The voluntary group is a proven success and is capable of bringing out the best in both the retailer and wholesaler. It is based on common need, common sense, and common results. The wholesaler leads by education and persuasion and the retailers support him because of self-interest and conviction. The voluntary wholesaler knows that his success or failure is predicated upon that of the retailer, and the latter realizes that he cannot be a competitive factor without the contribution made by the wholesaler. The lack of strong central control in a voluntary is perhaps the most important factor in judging the strength of the central chain and the weakness of the voluntary group. The voluntary must obtain cooperation by persuasion, the central chain by instructions and command. The voluntary wholesaler cannot fire an inefficient merchant or his unsatisfactory employees, and must either continue to try to teach and educate, or withdraw his franchise from the retailer and thereby lose this volume of business.

The greatest advantage of the voluntary is the personal interest of the owner-operator. The voluntary independent owner has the opportunity to be more flexible, personally develop a good store image and can move very quickly in making decisions. A combination of owner-operator interest with all the needed requirements of modern mass merchandising supplied by his voluntary wholesaler places him in a very advantageous position.

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The voluntary groups have a tax advantage over the chains. Members of these groups are independent merchants and as such each store pays taxes based upon the individual store's profits. The profits of the unit stores of the corporate chain are pooled and taxed as one corporate profit, which places them in a much higher tax bracket.

As an example, 500 independent stores, each making an annual net profit of $20,000 before taxes, collectively will pay much less of a tax than 500 chain store units which earned a similar profit. This is because corporate chain profits are pooled and the tax will be based on the aggregate profit of all its stores. Each independent store will pay a tax on $20,000, while the corporate chain's tax will be based on 10 million dollars.

The voluntary group will usually have fewer labor problems than the corporate chain. In the latter, the employees in each store and in each warehouse work for the same corporation and it is much easier for labor unions to organize them. In the voluntary group, where the employees work for independent retailers and independent wholesaler establishments, organization by unions is much more difficult because of the many stores involved and the relatively small number in each unit. However, the unions in the past few years have been active in the wholesale food industry and have unionized a great many voluntary group warehouses.[17]

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[17]David J. Schwartz, "An Exploratory Analysis of the Development and Present Status of Voluntary and Cooperative Groups in Food Marketing" (Research Paper Number 2, Georgia State College of Business Administration), p. 34.

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CHAPTER II

VOLUNTARY GROUP HISTORY AND ORIGIN THROUGH FIRST THREE EVOLUTIONAL STAGES

The Store of the 1920's

The stores of the average independent retailer in the 1920's were "friendly places of business, neighborhood meeting places, where women spent the time of day while waiting to be served. Women didn't seem to mind waiting because it gave them the chance to visit with the neighbors."[1]

The competition of the retailer grocer consisted of other merchants like himself. The stores were generally dirty and cluttered, they carried too much of the wrong kind of stock, and his bookkeeping was inadequate. The uncontrolled charge account, the delivery wagon or truck, the open cracker-barrel, the dust-gathering prune box, the coffee-mill on the counter, were components of the store of the 1920's.[2]

No customer could possibly wait on herself. She did not know where the merchandise she wanted was located, nor the price, and often the grocer himself did not know. The retail

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[1]"Doomed in 1920, The Independent is Stronger, Healthier Than Ever," The Progressive Grocer, Vol. 31, No. 10 (October, 1952), p. 210.

[2]Zimmerman, op. cit., p. 9.

grocer weighed out soap chips from a 25 to 50 pound drum, sold bulk coffee and ground it to order by hand, and sold cookies and crackers out of the big cracker-barrel or wooden box. Prunes were also sold from 25 pound bulk wooden boxes that were opened, displayed, and covered with a glass or paper cover to keep the flies and dust off. Crackers often came in bulk canisters, and cheese, rice, beans, and peas were sold in bulk quantities.[3]

The retailer carried on his business with very little change. His knowledge of merchandising and the physical lay-out of his store remained unaltered from one decade to another. If he made more than his family's groceries out of the business, it probably was because he was a shrewd trader and bought sharply, or had a way with the women that gave him an edge on his brother grocer in attracting trade.

Most of the labor was furnished by the grocer's family. Large families were vital in running a grocery store. Meats were cut to order, and rarely displayed in platters.[4]

The retail store was dark and dusky. A well-lit store was unusual. "Electricity cost money, and if business were none too good, the retailer would not turn on the light until it became so dark that he hurt his shins on a box of lemons in

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[3]Davidson, op. cit., p. 1.

[4]Zimmerman, op. cit., p. 99.

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the aisle."[5] Most lighting fixtures consisted of two drop cords with porcelain reflectors, and one-hundred watt bulbs were considered sufficient illumination for a 25 x 50 foot store. Yellow walls and oak fixtures absorbed a great deal of light, which resulted in an over-all dull appearance of the store.[6]

In remodeling old stores and building new stores at that time, a height of not more than seven feet was recommended for the shelving, which was made of wood. The store required stepladders and package hooks for hard to reach merchandise.[7]

Advertising and merchandising by the independent retailer was practically nonexistent. The only merchandising he did was that of suggestive selling, selling another or additional product, size, or brand. Advertising consisted of window signs usually handwritten and oftentimes half obliteread by rain or peoples' fingers. The sidewalk display was the major theme in grocery merchandising.[8]

In the early store layouts, a large amount of space was allotted to work counters for the following three reasons:[9]

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[5]Davidson, _op. cit_., p. 135.

[6]_Loc. cit_.

[7]_Ibid_., p. 88.

[8]Zimmerman, _op. cit_., p. 99.

[9]Davidson, _op. cit_., p. 111.

1. To collect and wrap grocery orders.

2. To weigh goods and collect money.

3. To have a handy place to answer the phone and write up orders.

The average grocer would receive most of his orders by telephone in the morning and he or his clerk would proceed to fill them. The work counters were cluttered, unpleasant, and generally were a gathering place for junk. This same criticism applied to the old-fashioned glass show cases.

A typical conversation between a customer and a clerk in the 1920's ran something like the following:

"And then I'd like a bottle of catsup.

Yes 'um, which will you have, Heinz, Snyders, or Our Own brand?

Oh: Heinz, I guess.

Yes 'um, what size, large or small?

Small.

Yes 'um, and what else?

What is the price of the large size?

Twenty-three cents.

Well, that is all right, I will take the small size."[10]

The retailer was accustomed to buying from several wholesalers and dealt with the latter's salesmen. It was not unusual and the practice for a retailer to buy from as many as three or four wholesale grocers, using the method of wheeling and dealing. The salesman would sell the retailer

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[10] _Ibid._, p. 104.

anything in any quantity, and often regardless of whether the customer could or could not pay for it. The retailer would attempt to match prices of his many wholesalers and buy the various items from the one who had the lowest prices on particular items. However, in the final analysis the wholesaler would average his mark-up on each order by pricing unquoted items higher than normal.

The salesman would sell a quantity of an item to a retailer who would buy an abnormal amount to obtain a lower price. This merchandise often would remain in his inventory for three or four months before finally selling out, and his inventory turnover per year was very low. Also, by being unbalanced in inventory, at times he was unable to finance his regular purchases and his always climbing accounts receivable.[11]

Credit and delivery was the heart of the independent retailer's operation. However, the retailer often let his credit accounts get out of hand so that they often were larger than his inventory. Progressive men of that time felt that the best way the independent could hold his trade was by the extension of credit. It was felt that credit and delivery were essential services that would enable the independent merchant to hold his trade more firmly than ever.[12]

It is important to know the conditions and operations of the store in the 1920's because the chain store started

[11]Interview with Moses S. Strock, May 27, 1961.

[12]Davidson, op. cit., p. 232.

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A list of the conditions were as follows:

1. Uncontrolled charge accounts.
2. No merchandising.
3. No advertising.
4. All service.
5. Poor store layout.
6. Untidy stores.
7. Poor buying resulting in high cost of goods.
8. Little or no bookkeeping records.
9. High overhead--no cost records.

The net result of the independent retailer's operation was high prices to the consumer. In many instances the chains retailed merchandise at lower prices than the independent paid his wholesaler for it. This was occasioned by a combination of the chains selling "loss leaders" at below cost or at cost and the wholesaler selling to the retailer at high margins.

Early studies of figures of the independent retailer and the chain store are revealing in that they point out the savings to the consumer by improved chain methods.

The Louisville grocery survey that was published by the United States Department of Commerce and conducted during 1928-1929 revealed that the average gross margin of the independent retail food store in Louisville was 25.81 per cent.

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In January and February, 1931, the Federal Trade Commission secured similar statistics from retail grocery stores in the Detroit metropolitan area. This showed the gross margins of chains to be 18.96 per cent of sales and that of the independent to be 25.93 per cent.[13]

TABLE 1. A Study made by the Federal Trade Commission on Sales and Profits of Retail Grocery Chains from 1919 through 1930.[a]

Year	Gross Margin
1919	16.92
1922	19.57
1925	20.56
1927	20.60
1928	20.92
1929	20.65
1930	20.94
Average percentage for period . . .	20.58
Average operating expenses for period	18.48
Net profit for the period . . .	2.10 %

[a]Frank J. Charvat, Supermarketing (New York: The MacMillan Company, 1961), p. 22

[13]Zimmerman, *op. cit.*, pp. 14-15.

TABLE 2. Profit and Loss Statement for the Average Grocery Store in the Louisville Survey as a Percentage of Sales for the Year 1929.[a]

Sales		100.00
Cost of sales		74.19
Gross margin		25.81
Expenses:		
Miscellaneous	2.53	
Owner's salary	4.01	
Other salaries	6.31	
Rent	.98	
Utilities	1.23	
Delivery	2.77	
Advertising	.31	
Insurance	.15	18.29
Net Profit		7.52

[a]U. S. Department of Commerce, Distribution Cost Studies Number 1, Louisville Grocery Survey, Part IIIA, (Washington, D. C.: Government Printing Office, 1932), pp. 15-23.

Other studies of independent store operations showed gross margins closer to 20 per cent and profits from 1.6 to 2.6 per cent of sales.[14]

The Great Atlantic and Pacific Tea Company for the year 1929 operated 15,150 stores, with average weekly sales of $1,317.00 per store. (See Table 3.)

The Federal Trade Commission published statistics for 1929 showing the gross margin for chain stores as a group for that year was 18.99 per cent, and for independents 23.01 per cent of sales. These figures supported the fact that the chains were underselling the independent grocer at that time.[15]

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[14]*Ibid.*, p. 23.

[15]*Ibid.*

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TABLE 3. Condensed Profit and Loss Statement of the Retail Store Operation of the Great Atlantic and Pacific Tea Company as a Percentage of Sales for the Years 1929 to 1935.[a]

	1929	1933	1935
Sales	100.00	100.00	100.00
Cost of sales	81.64	78.10	80.50
Gross margin.	18.36	21.90	19.50
Total operating expenses. .	15.52	19.08	17.56
Net profit	2.84	2.82	1.94

[a]United States v. The Great A & P. Tea Company, U.S. Circuit Court of Appeals, 7th District, Docket 9221, Records and Briefs, Vol. II, p. 162.

The period of 1920 to 1930 found the chain stores at their peak, and the independent retailer at his lowest level of efficiency and ability to compete. It became essential that, with the assistance of the wholesaler, he educate himself to offer the public savings in their food budget by duplicating the methods of the chains. The measure of success of each independent retailer depended upon how quickly he learned this lesson and applied the knowledge.

The Wholesaler of the 1920's

While the food chains attained an important retailing position in the early 1920's, the wholesaler faced many problems.

The wholesalers were located in multi-story warehouses which required the use of elevators for handling merchandise.

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This was a slow and costly procedure. Materials handling was a matter of moving and assembling each individual unit, and equipment was limited to two-wheel hand trucks.[16]

The need for salesmen to obtain orders was a very costly expense that the chains did not have to bear. The retailer purchased from three or four wholesalers. Because of this practice, the wholesaler was always uncertain whether his customers would give him a large, small, or any order. The selling expenses of the wholesaler of the 1920's were often as large as a modern wholesaler's total operating expenses. These selling costs offered the greatest possible area for reduction of wholesaler's operating costs and was later effected by the introduction of the order form.

The wholesaler offered his customers no assistance in merchandising, advertising, or services of any nature. He thought he did a good job if he could supply groceries to his retail customers and earn a satisfactory profit. Whether or not the retailer could sell this merchandise did not matter to the average wholesaler. He was unconcerned with any matters beyond the sale of the merchandise.[17]

In the areas of finance and credit, the wholesaler extended generous credit to his retailers and used this as a weapon to secure business and maintain his high price structure.

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[16]Ned Fleming, "100 Years of Food Distribution," Wholesale Grocer News, Vol. 28, No. 3 (June, 1953), p. 23.

[17]Grant Gore, "There's Been a Revolution in Grocery Wholesaling, Too," The Progressive Grocer, Vol. 31, No. 10 (October, 1952), p. 321.

The retailer was thus assisted to finance his own large accounts receivable and inventory, which was usually excessive and out of balance. This situation resulted in excessive accounts receivable for the wholesaler, raised his capital requirements and costs, and increased his bad debts. Eight to ten turns per year of accounts receivable were average as compared to the present day practice of obtaining check with order, and thereby eliminating to the greatest extent accounts receivables.[18]

The average wholesaler's inventory was large and unbalanced in relation to his volume, and resulted in a slow turnover rate of from four to eight turns per year, as compared to the average 13 to 25 turns per year today.[19]

The wholesaler of the early 1920's was self-satisfied and felt he was operating as cheaply as he could. He did little in the way of self-criticism, and while the retailer had the wholesaler and other critics to tell him what was wrong with his business, there was no one at that time to act as monitor for the wholesaler, but himself.

While the wholesaler was lecturing the retailers on the necessity for change, reduction of stock, restriction of

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[18]Ned Fleming, "Our Problems . . . Our Opportunities," NAWGA Executive Bulletin, August 30, 1957, pp. 2-3.

[19]Fleming, loc. cit.

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delivery territory, elimination of old-fashioned counters and fixtures, and adoption of the principle of purchasing all merchandise from one source of supply, he violated these principles in operating his own wholesale business. The wholesale grocer of the 1920's needed to get his house in order and get his costs down.

The advances made by the chain stores during this decade created a necessity on the part of the independent for competitive weapons, which gave rise to a remarkable development in food distribution--the voluntary group. This revolutionary concept brought about many changes in the wholesaler-retailer relationship. The late twenties saw many old-line wholesale grocers embrace the voluntary movement. They engaged in coordinated buying at lower margins, merchandising and advertising, and attempted as far as possible to duplicate the functions of the corporate chains.

The voluntary movement was the result of the success of the chain store system which by 1920 had established itself as a factor in food retailing and by 1929 accounted for 45.7 per cent of all the retail food sales in the United States.[20]

The majority of the wholesalers were slow in adopting the voluntary group concept and thereby assist their retailers in meeting the chain competition. The following chart is a record of the number of voluntary groups organized between 1915

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[20]U. S. Department of Commerce, Census of Business, 1930 (Washington, D. C.: Government Printing Office, 1930).

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TABLE 4. Year of Origin of 115 Voluntary Food Groups in the United States.[a]

Year of Organization	Number of Voluntary Groups
1915-1920	1
1920	1
1922	2
1923	2
1924	2
1925	4
1926	10
1927	24
1928	24
1929	45
Total	115

[a]Chain Store Inquiry, Cooperative Grocery Chain (Washington, D. C.: Government Printing Office, 1932), p. 9.

The voluntary wholesaler faced an arduous and difficult task in establishing and developing the spirit of voluntary cooperation between the retailer and himself. Business had been conducted between them for many years on a "horse-trading" basis of give and take, and they were suspicious of each other. The education of the retailer by the wholesaler in the voluntary concept of food distribution required strenuous and consistent application and attention.

How he improved the wholesaler-retailer status in combating the influence of the chain stores and the rise of the super markets, will be treated in a later chapter.

The Advent of the Chain Store and Its Growth

In the preceding pages, the definitions, classifications, and organization of voluntary groups has been outlined. The status of the wholesaler and retailer of the 1920's was described so that the situation regarding food retailing of that period can be understood in the light of the entrance of the food chain into the retailing field.

The first element that contributed to the tremendous changes that took place in food store operations in the early Twentieth Century, was the introduction in 1899 of the first packaged trademarked food by the National Biscuit Company and named "Uneeda."[21]

The period starting with World War I brought a new kind of competition, which was a threat to the independent retailer. The chain store idea of mass distribution educated the consumer to save money in their food budget by paying cash and taking their groceries home with them. The elimination of credit and delivery was established in the mind of the consumer as money-saving.

Prices were almost double in 1920 from what they were in 1914 and the consumers were extremely price conscious. The independent merchant was being pictured as an inefficient

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[21]"March of Progress," The Progressive Grocer, October, 1952, p. 162.

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[22]Theodore N.
H. Davidson, Princi
Press Company, 193

[23]Zimmerman,

retailer, profiteering during these war years by over-pricing his merchandise.[22]

Several studies conducted by the United States Government agencies substantiated the claims that the chains were pricing their goods at considerably lower margins than the independent retailers. A study by the Federal Trade Commission showed that the chains for the year 1919 operated on a gross margin of 16.92 per cent, in 1922 the margin was 19.57 per cent, and in 1925 was 20.56 per cent.

The Louisville grocery survey published by the United States Department of Commerce and conducted during 1928 and 1929, revealed that the average gross margin of the independent retail food store in Louisville was 25.81 per cent. Other statistics bear out the fact that the chain stores were operating at much lower gross margins than the independents, and these figures did not take into consideration that the chains were owning their goods at a much lower cost than the independent retailer could buy from his inefficient and usually high priced wholesaler of the 1920's.[23]

The dawn of the 1920's was a fertile time to introduce improved methods of distribution. There was a large increase

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[22]Theodore N. Beckman, Harold H. Maynard, and William R. Davidson, Principles of Marketing (New York: The Ronald Press Company, 1957), pp. 103-207.

[23]Zimmerman, op. cit., pp. 14-15.

in the city growth, which was especially advantageous for the promulgation of chain store growth, because the costs of advertising and supervision were low. Automobiles and improved roads enabled those in rural areas to visit cities more often.[24]

The chains capitalized on the increase in packaged goods that was beginning to come into the market in greater quantity and wider variety, and which the consumers wanted and purchased. The chain store methods of buying at special quantity discounts, of price cutting and "loss leader" selling, plus new ideas in merchandising, advertising, stock control, and turnover and the application of cash and carry and self-service practices, threatened to take over the food business from the independent retailer.[25]

The chains were able to expand rapidly with a minimum of investment. The elimination of credit and delivery made possible the cash and carry store of that era. The typical A. & P. economy store operated on an investment of $3,000; $1,000 for fixtures and equipment, $1,000 for merchandise, and $1,000 for operating capital. Most of these stores were run by one man who closed the store when he went to lunch. The low prices offered, attracted consumers and subsequent to

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[24]Beckman, *loc. cit.*

[25]Beckman, *op. cit.*, pp. 198-199.

World War I it became a symbol of patriotism to save money, material and manpower, and to be seen carrying groceries home from the store.[26]

The independent retailers of the 1920's were satisfied to continue their way of operating, and the rank and file with few exceptions kept running their stores in the same old-fashioned manner.

If he felt secure in his being able to hold his trade, he found his customers being converted to cash and carry shoppers. He often found himself in a situation where he extended credit to many customers who shopped in his store only when they had insufficient cash to shop in the chains and in the few independent self-service stores of that day. The independent lacked the imagination, ability and leadership to hold or regain his position. His feeble attempts at the outset in meeting chain competition was a sympathy plea to his customers not to patronize the chains and he did not recognize or duplicate the efficient chain store methods.

The chain store system experienced an amazing period of growth during the 1920 decade and had become an important factor in food retailing. In 1914 there were 500 parent chains with 8,000 outlets, which in 1930 increased to 995

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[26]Joseph J. Trout, "The Chain Stores Sharpened Competitive Spirit, Resulting in Better Stores for All," The Progressive Grocer, Vol. 31, No. 10 (October, 1952), pp. 182-183.

parent firms with 62,725 retail units.[27] In 1919 the chains did 5 per cent of the total retail sales, while in 1929 they accounted for 30 per cent of the sales volume.[28] A striking example is the progress made by the Great Atlantic and Pacific Tea Company. In 1920 they operated 4,544 stores, while in 1925 that number had increased to 14,034. This expansion meant that for five years there were six store openings a day every business day in the week. Their sales during the corresponding period soared from 194.6 million to 440 million. Many other chains experienced similar growth during this period.[29]

The comparative sales and number of stores of the chains versus the independent retailers as of 1929 for the entire nation, in grocery sales, is shown in the following table.

TABLE 5. Comparative Sales of Independent and Chain Retail Grocery Stores Year 1929.[a]

Type	Number of Stores	Total Volume	Average Annual Sales Per Store
Independent Retail Stores	285,641	$4,964,440,580	$17,380.
Chain Retail Units	62,725	2,885,350,000	46,000.
Combined Total Sales		7,849,790,580	

[a]M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Company, Inc., 1955), p. 3.

[27]Zimmerman, op. cit., p. 2.

[28]Beckman, op. cit., p. 193.

[29]Trout, loc. cit.

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It is interesting to note that in 1929 while the independents did a volume of business a little less than double the chains, the retail store unit of the chain did three to four times the volume of that of the independent store.

The tremendous increase in sales volume of the chain stores necessarily had to come from somewhere besides the population increase and its surge and growth was largely at the expense of the independent merchant, who feared that the chains were going to take over the food business and drive them into bankruptcy. The chains had forced margins down anywhere from six to ten per cent and independent grocers encountered difficulty in making a profit, due to inefficiencies of their store lay-out, extension of credit and service, and high costs of goods purchased. In addition, the one stop food market began to emerge, and by 1929 headed the type of food stores with 31.1 per cent.[30] (U. S. Census of Business, 1929).

To illustrate the rapid growth of the chain stores, the following two tables contain the number of stores and sales volume of the then leading fifteen chains from 1921 to 1931.

The rate of expansion of the chains during the 1930's resulted in many communities being saturated with retail food stores. The chains faced increasing expenses, stationary gross margins, and decreasing profits, even in the face of increased sales and number of stores. Units of different

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[30] The Progressive Grocer, October, 1952, p. 65.

TABLE 6. Number of Stores of Leading Food Chains from 1921 to 1931.[a]

	1931	1930	1929	1926	1921
Great A. & P. Tea Co.	15,670	15,737	15,418	14,811	5,217
Safeway Stores, In.	3,527	2,691	2,660	766	
The Kroger Co.	4,884	5,165	5,557	3,397	1,575
American Stores Co.	2,806	2,728	2,644	1,983	1,152
First National Stores	2,546	2,548	2,549	1,681	
National Tea Co.	1,512	1,600	1,627	840	261
The Grand Union Co.	708	709	705	526	450
H. C. Bohack Co.	741	694	504	390	186
Daniel Reeves	782	735	698		
Dominion Stores	572	526	517	423	122
Childs Food Stores	111	114	112	108	89
Loblaw	99	99	94	41	6
Pender's Stores	423	412	411	324	
Southern Grocery Stores	399	375	404	249	
Jewel Tea Co.	1,334	1,280	1,215	1,090	1,005

[a]M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Company, Inc., 1955), p. 4.

TABLE 7. Sales of Leading Food Chains from 1921 to 1931. (000 omitted)[a]

	1931	1930	1926	1921
Great A. & P. Tea Co.	$1,008,325	$1,065,807	$574,087	$202,434
Safeway Stores	246,784	219,285	50,537	
The Kroger Co.	244,371	267,094	146,009	44,851
American Stores Co.	135,226	142,770	116,902	86,068
First National Stores	107,634	108,197	59,038	
National Tea Co.	76,658	85,246	53,658	16,283
The Grand Union Co.	35,640	38,117	26,240	21,889
H. C. Bohack Co.	35,354	33,299	21,159	12,493
Daniel Reeves	31,149	34,007		
Dominion Stores	25,200	24,119	15,257	3,461
Childs Food Stores	24,303	26,551	26,137	21,941
Loblaw	17,010	18,435	7,717	695
Pender's Stores	14,378	15,975	10,722	
Southern Grocery Stores	14,299	16,180	10,428	
Jewel Tea Co.	13,743	15,522	14,568	11,210

[a]Same as above.

chains began competing with each other. Each chain wanted the best locations and offered extremely high prices for them, thus building up an excessive rental burden. At the same time, the more severe competition made it impossible to increase the gross margin to take care of increased operating expenses, with a resulting lowering of net profits.[31]

A part of the great chain store expansion was unsound, and was guided by financial promoters rather than food executives. Some chains went into real estate speculation that had no relationship to their food operation. Some chains failed, and some merged with other food chains. The majority of the failures were the result of unsound promotions and real estate activity, and had no bearing on the soundness of the chain store system.[32]

A highly competitive atmosphere sharpened procedures and kept those chains that continued to exist, active and growing. This proved to be one of the most difficult periods for the independent retailer and many went out of business. The advent of the chain stores sharpened the competitive spirit of all food distributors, resulting in better stores for all.

The Independent Battles the Chain Store With Legislation

What effect did all the growth and expansion, and new methods and concepts of the chains have on the independent

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[31] Trout, op. cit., p. 184.

[32] Ibid.

retailer?

Reluctant, or incapable of using the efficient methods of the chains, the independents first attacked the chain competition by attempting to develop public opinion against them. They capitalized on some of the anti-chain resentments and encouraged public antagonism against them. They pictured the independent as a good citizen and neighbor and the chains as "Wall Street" financiers.[33]

Mass meetings of retailers were held in many parts of the country and anti-chain organizations were formed. Consumer sentiment was aroused against their expansion and sales growth. The chains were accused of the following misdeeds:

1. Took money out of the community.
2. Forced local retailers out of business.
3. Depersonalized the community.
4. Destroyed opportunities for young men.
5. Did not carry their portion of the local taxes.
6. Practiced unfair competition by loss leaders and cost selling.
7. Tended toward monopoly.
8. Disorganized distribution.
9. Raised marketing costs.
10. Compelled the manufacturer to sell for less, but no savings passed on to the consumer.[34]

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[33] Zimmerman, op. cit., p. 8. [34] Ibid., p. 3.

Sources of anti-chain sentiment on the part of the public can be traced to the expansion-mad days of the twenties. In the competitive rush of expansion, chains often restored to unfair price cutting and buying practices. This did not always lead to lower prices for shoppers, for quite often, this price cutting in one competitive area was balanced on the chain's books by higher prices in non-competitive areas.

Even those shoppers who benefited by the lower prices, and who continued to shop at chain stores, were not kindly disposed toward chains because of an inherent loyalty to the small business typical of many Americans. While this sentiment on the part of shoppers may seem paradoxical in the face of their continued support of chains by buying there, it was an important factor in the passage of several state and municipality tax bills directed against chains, many of which were carried by popular vote.

The chains, too, fell victim to deficiencies in their accounting procedures which allowed unscrupulous managers to juggle prices and weights around for their own personal advantage. This dishonesty on the part of some managers was fostered by chain accounting procedures which allowed little or nothing for normal shrinkage. The managers were expected to produce a certain sales figure for a given amount of merchandise, and many resorted to shortweighting customers in order to do so.[35]

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[35]Trout, op. cit., p. 184.

This was never a deliberate practice on the part of chains and management was always aware of the danger of the practice. Nevertheless, it was one of the chinks in the chain store armor that had not yet been corrected and resulted in many cries of "short-weight" directed against chain stores.

The independents capitalized on this anti-chain feeling and their anti-chain organizations collected hundreds of thousands of dollars to foster legislation to try to tax the chains out of existence. The chains erroneously felt that customers were friends, and did very little in the way of fostering good public relations. This lack of friendliness on the part of the chains left them wide open to the attacks on them that were developing.

The independents were successful in capitalizing on anti-chain feelings of the period. The first bill that called for taxation of chains on a different basis than independent stores was introduced and defeated in 1923. However, the first such bill to be passed, and to have its constitutionality upheld by the United States Supreme Court was one introduced in Indiana in 1929.

This Indiana Tax introduced the principle of taxing chain stores on a different basis than independent stores. The main feature was a graduated tax on the number of stores operating by any one company in the state.[36]

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[36] The Progressive Grocer, October, 1952, p. 186.

Under its terms, there was a license tax of $3.00 per year on individually owned stores. Then the tax increased to $10.00 per year on each store up to five; $15.00 per year on each additional store up to ten; $20.00 per year on each additional store up to twenty; and $25.00 per year on each additional store in excess of that number. In 1933 the top-bracket figure was raised to $150.00 per store.[37]

The Supreme Court decision in 1931 on the Indiana Tax paved the way for other states to pass similar bills. By 1938, 20 states had chain store tax laws, with taxes running as low as $1.00 for the first unit in Alabama and for over 20 stores $112.50 per store; to Texas taxing $750.00 per store for those chains operating more than 50 units.[38]

By 1941 chain store tax laws were in effect in 28 states. The majority of these laws were passed by legislative action, but there were several instances where the imposition of such taxes depended in one way or another on the result of a popular vote. In 1931 a Portland, Oregon referendum resulted in a chain store tax being enacted by a slim majority; in 1934, a Colorado state tax on chains was imposed as the result of balloting that saw 132,160 votes cast for the tax, and 106,359 against.[39]

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[37] Ibid., p. 186.

[38] Zimmerman, op. cit., p. 5.

[39] The Progressive Grocer, op. cit., p. 187.

The principal feature of the chain tax law was a graduated tax rate on the number of stores operated by any one company. In all situations the tax was levied only on the stores within the physical boundaries of each state. However, Louisiana based their tax rate on the number of stores within the organization, although the tax was paid only on those stores within the state.[40]

Although the chains fought back, they were slow to realize the benefit of developing and maintaining good public relations to combat the anti-chain feelings. The first substantial attempt by the chains in public relations came about when a chain store tax bill was to be voted on by popular ballot in California in 1936. The chains of that state were determined to wage an all-out effort against the bill. In the thirteen-month period that the chains had to battle this legislation, they learned some invaluable lessons on public relations that benefited not only the California chains, but all the others as well.[41]

The California chains hired a large advertising agency to bring their message to the public, which the agency succeeded in doing. The result of the vote was against the tax 1,369,778 to 1,067,443. This victory in 1936 in California turned the tide for the chains as far as taxation went. While there were other measures introduced in other states, the trend died down. Since 1941, no new bills have been enacted,

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[40]Beckman, op. cit., p. 205. [41]Trout, op.cit., pp. 184-86.

and several bills enacted prior to that year have since been modified or repealed.[42]

The consumer continued to patronize the chains in ever-increasing numbers as the inducement of low prices, wider variety of goods and combination stores won over the loyalty of the independent merchant. (See Table 8.)

TABLE 8. Chain-Independent Share of Grocery Sales.[a]

Year	Chains	Independents
1933	34	66
1943	29	71
1947	34	66
1954	36	64
1955	36	64
1956	37	63
1957	38	62

[a]Robert W. Mueller, "Food Marketing Through Wholesalers-The Food Industry's Newest Success Story," Address to Annual Convention--National American Wholesale Grocers Association, March 18, 1957, p. 6.

Some alert independent merchants realized that in order to compete with the chains it would be necessary to duplicate chain methods. These ideas formed the basis for cooperative buying and merchandising, and marked the beginning of the voluntary group movement in the United States, in 1921.

The Birth of the Voluntaries--The First of the Evolutional Stages

Thoughtful and capable wholesalers and retailers reasoned that the solution to their problems would not come about by

[42]The Progressive Grocer, October, 1952, p. 186.

attempting to tax the chains out of business. They had come to realize that the chain store was a new kind of competition, one of new methods, resulting in lower costs to the consumer.

They believed that the threat of the chain could be minimized and met by matching their buying methods. They believed that the advantage gained and maintained by the chains was due exclusively to their superiority in the purchasing area. The chains were obtaining quantity discounts and price concessions and the retailer thought if he could buy as cheaply as the chains, he could sell as cheaply and thus liquidate their competition.[43]

The ability of the chains to order in large quantities for many outlets through a central office enabled it to secure the lowest possible prices on the most favorable terms, and to receive additional allowances or rebates for quantity buying, advertising, and store display allowances. There was no Robinson-Patman Law at that time and discriminatory rebates and allowances were practiced quite frequently, although the manufacturer ran the risk that one company might discover that another had secured a more favorable deal.

The chain store buyers possessed and further developed considerable skills in the business and art of buying, and devoted the major part of their time to the buying functions.[44]

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[43]Davidson, op. cit., p. 3.

[44]Beckman, op. cit., pp. 198-199.

To combat these buying advantages enjoyed by the chains, the wholesalers and retailers of the early 1920's put their heads together and joined hands to battle a common enemy. The chains had introduced them to new ideas they had never encountered before and the voluntary group was born of dire necessity and was actually the beginning of a new life for those retailers and wholesalers who deserved to live.

Thus, the beginning of the voluntary group was based upon the idea of buying groups of retailers who concentrated their purchases through one wholesaler to obtain quantity prices and concessions.

The retailers soon found out that pooling purchases to obtain greater buying power and thus lower prices was only part of the answer in meeting chain store competition. The reasons were as follows:

1. They found that there were only a limited number of items that they all bought in sufficiently large volume, and they were accustomed to buying different brands and different qualities at various prices. In these items they could get sufficiently large volume only if all were willing to mutually agree on the items, prices, and quality. This was a first step toward centralization of policies.
2. It was the policy of the central chains to sell many nationally advertised brands below cost as "loss leaders" and make up their losses on their

own highly profitable private brands. This type of selling forced the voluntaries into the creation of their own private brands so they could meet chain competition. These private brands had to be promoted in order to get enough volume so they could be bought and sold profitably. This lead to centralized merchandising and advertising.

In these ways the attempts of the voluntary groups to meet the buying and merchandising advantages of the central chains brought them gradually toward centralization of policies and functions of merchandising, and sales promotion. Later, they hired specialists, and in this way adopted another advantage of large-scale operation.

The father of the voluntary groups in the United States is Smith M. Flickinger. He operated a wholesale grocery, the S. M. Flickinger Company, Buffalo, and set up a chain of stores to provide retail outlets for its wholesale volume, in the early days of chain competition. A group of independent retailers in Buffalo and surrounding towns suggested that the Flickinger Company work out some plan whereby they could derive the benefit of concentrated purchasing. Mr. Flickinger conceived the Red & White Stores plan of wholesaler-retailer cooperation based upon the principle of the concentration of purchases by a group of retailers through a single wholesaler and put it into action in 1921. This marked the birth of the voluntary group in food distribution.[45]

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[45]Davidson, <u>op. cit.</u>, p. 32.

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The second leader of the voluntary movement was Lewis C. Shave of Brockton, Massachusetts, the founder of Nation-Wide Stores. Mr. Shave was the first to arouse the interest of the wholesalers and retailers generally as to the possibilities of the voluntary being able to fight fire with fire.[46] He was the first person to communicate the voluntary group's importance to the manufacturers when, in 1926, in Rochester, New York, Mr. Shave addressed a wholesaler grocery convention on the subject of voluntary groups. Even the father of the voluntary, S. M. Flickinger, did not bring before the manufacturers, wholesalers, and retailers as clearly as Mr. Shave did, the actual merchandising tactics of the chain store and how they might be applied by the wholesaler and retailer. Mr. Shave can well be considered to be a pioneer, and possibly the father of the integration of the wholesaler and retailer for quantity low-priced buying and the securing of the advantages of manufacturer's advertising allowances, which was a considerable factor.[47]

The voluntary group wholesalers used their mass buying power of their groups not only to obtain lower prices and concessions on carload and pool-cars purchases, but in addition were able to lower their costs on perishable goods. By duplicating chain store methods of mass buying and cooperative merchandising on the part of the retailer, they were able to effect savings as follows:

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[46] _Ibid._, p. 46.

[47] _Ibid._, p. 46.

TABLE 9. Savings Effected by Duplicating Chain Methods of Mass Buying and Cooperative Merchandising.[a]

Item	Savings
Crackers and biscuits	5% to 23%
Bread	5% to 15%
Fruits and vegetables	5% to 25%
Meats	5% to 10%
Store and delivery equipment	5% to 25%

[a]O. Fred Rost, Distribution Today (New York: McGraw-Hill Book Co., Inc., 1933).

During this period of the birth of the voluntary group, stress was placed exclusively on buying and price concessions. Eventually, it became apparent that cooperative buying in and of itself, and coupled with some limited advertising, were not the solutions to their mutual problems of chain store competition.

The Second of the Evolutional Stages

The second stage began in the late 1920's, extended into the early 1930's, and marked a period in which some wholesalers took the initiative in organizing voluntary groups and offering its members limited services in an attempt to emulate the chains and be competitive with them. Also, some far-sighted and able wholesalers realized there must be radical changes in their operating methods. The chain competition was devastating and it became necessary for the wholesaler and retailer to work together to survive.

During the 1920's, J. Frank Grimes, the founder of The Independent Grocers Alliance, was associated with William Thompson and Company, Chicago, certified public accountants. For many years he had audited the books of many wholesale grocers and observed that they were losing ground rapidly. He recognized that the retailer and wholesaler had to join together to equal chain organization efficiency. The basis of Mr. Grimes' plan was to demonstrate to the independent the reasons for his plight and teach him how to keep down his expenses, raise volume, and thereby lower prices.[48] In 1926 he sold his idea to the William T. Reynolds Company of Poughkeepsie, New York, a wholesale grocer, which became the first member of Independent Grocers Alliance. A meeting was organized, to which the Reynolds Company invited all the retail merchants in their area, and Mr. Grimes, with his dynamic personality, convinced these disorganized retailers of the merits of his plan and the voluntary group theory.[49] In 1930 the syndicate had built an organization that consisted of 35 wholesale grocers with a retail membership of 8,000 stores. Its growth was due in large part to the organizing ability and aggressiveness of its founder and his associates.[50]

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[48]Davidson, op. cit., p. 38.

[49]Zimmerman, op. cit., p. 1.

[50]Davidson, op. cit., p. 38.

An outline of the original I. G. A. plan of operation is as follows:

1. Rigid qualifications for wholesale members
2. Salesmen converted into supervisors
3. Concentration of buying by retailers
4. Agree to remodel stores under supervision
5. Agree to follow directions of headquarters
6. Self-service stores
7. Repricing merchandise
8. "Grand opening--Hello sale"
9. Follow up by headquarters
10. Changing methods of credit supervision
11. Cleaning house for the wholesaler
12. Budgeting voluntary group expenses.[51]

The Clover Farm Stores voluntary chain was organized in 1926 by the Greene-Babcock Company, wholesale grocers of Cleveland. Among the contributions made by this voluntary are the following:

1. Organized and developed group newspaper advertising, paid by contributions from the retailers and by advertising allowances from manufacturers and packers.

2. Arranged for the wholesaler to provide a retailing export on fruits and vegetables.

3. Encouraged the wholesaler to assist members in their purchases of equipment and supplies at savings due to quantity discounts.

4. Developed a program whereby wholesale grocery salesmen were converted into supervisors.

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[51]*Ibid.*, pp. 38-45.

5. Chain organization type of order sheets were adopted.

6. Assisted the wholesaler to develop supervised ordering and inventory control with resulting stock turnover increases.

7. Assisted the wholesaler with the weekly window posters and price cards furnished by him to his group.[52]

As described previously, under Mr. Flickinger the Red and White voluntary group was the first to organize. As their organization grew, they developed the system of concentration of purchases by the retailer from one wholesaler, and also set up a central buying organization from which the wholesaler made his purchases. The merchandising of their private label was stressed and supported by national advertising.[53]

The voluntary wholesaler member of a syndicate usually paid a fixed franchise fee to headquarters and an additional amount for each retailer in his group.

The American Institute of Food Distribution had found that during this period, the retailer paid the wholesaler a weekly fee and the figure of $3.50 was found to be about the average. The wholesaler extended the following services to his retailers in the voluntary group for this fee:

1. Advertising cooperation
2. Merchandising
3. Store Management services.

The retailer agreed to:

1. Concentrate his buying with his voluntary wholesaler.

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[52] _Ibid_., pp. 64-71. [53] _Ibid_., p. 32.

2. Maintain store at accepted standard of efficiency.
3. Cooperate in purchasing, marketing, and merchandising.

The voluntary groups sponsored by wholesalers existed under a variety of different arrangements and many were loosely held together. The response of the retailers during this second evolutional stage, to the various types of activities that were initiated by the wholesaler's headquarters, depended upon the degree to which each retailer was willing to put his future into the wholesaler's hands. Under these circumstances, results were found to vary greatly.

The Nation-Wide Food Stores voluntary group pioneered group advertising, cooperative purchasing agreements with manufacturers and retailers, published weekly trade letters, suggested improvements in store arrangement, and placed experienced chain-store engineers at the service of the retailer. As described in a previous chapter, the Nation-Wide plan was based on "loose control" of the retailer, who was free to do as he pleased. This lack of a tight contract with firm control was an illusiveness which did not benefit either the wholesaler or retailer under the voluntary chain operation. Active organizing by these four voluntaries communicated the idea to wholesale grocers who began to realize that their progress depended upon duplicating chain methods. Those who wished to maintain independence in buying and operating organized voluntaries of their own.

Some leading independent voluntaries were: the Edwards Company of Cleveland; United Purity Stores of Seattle that were sponsored by a group of northwestern wholesalers; Arrowhead Stores, Buffalo, New York; Quality Service Stores, Roanoke, Virginia; Urma Stores, Louisville, Kentucky; Rainbow Stores of the Berdan Company, Toledo, Ohio, established its voluntary group with 35-40 stores operating as Rainbow Cash and Carry, but it did not prove successful. National Grocer of Detroit, Michigan, abandoned the voluntary idea because nearly all the store owners in Detroit were foreign born and developed their own chain. Happy Hour Stores of Campbell Holton and Company of Bloomington, Illinois operated their voluntary in 116 towns in Illinois and Iowa. Victoria Independent Stores of Laporte-Martin Ltd., Montreal, Canada, held a tight control over their members and required a sound financial condition as a prerequisite to membership.[54]

Constant education and supervision was required on the part of the wholesaler who sponsored a voluntary chain. As voluntary groups were developing in this second stage, many failed to persevere. The task was a combination of too much work, loaded with too much expense and too many problems of personnel and management. Many wholesalers operated their voluntary groups as a sideline to their regular wholesale grocery business, treating the voluntary as a temporary expediency. Some relied upon retailer committees and a representative or two from the wholesaler to manage the voluntary

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[54]Davidson, op. cit., pp. 50, 52, 62-64, 72.

group. The latter usually was inexperienced, with very little knowledge of the theory or practice, and not of management calibre. Some of the wholesalers operated with two distinctly separate divisions, one, the traditional wholesale function, the other, the voluntary group system.

This lack of organization and foresight led to confusion, a lack of decision, an overlapping of authority, and a frequent breakdown of management. However, the "willing-to-try-it" attitude gradually had to give way to the wholesaler who devoted his entire organization to the success of his voluntary group, which shortly thereafter became the nucleus of the business.[55]

An indication of the slow but certain progress that was being made may be observed by the following figures:

TABLE 10. Number of Voluntary Retail Groups, 1930, and Their Memberships.[a]

	No. of Organizations	No. of Retail Members
Cooperatives	175	7,235
Retail-owned wholesalers	103	18,076
Wholesaler-sponsored groups	273	34,311

[a]M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Company, Inc., 1955), p. 13.

[55]Davidson, op. cit., pp. 19-20 and 23.

In order to obtain factual information regarding the progress being made between the independent wholesalers and retailers in duplicating chain store methods, the American Institute of Food Distribution conducted a survey in 1930. It was found that in a group of 413 wholesaler-retailer groups with 58,085 member stores, the following services were provided:

41,893 independent retailers used group newspaper advertising.

47,462 members used weekly handbills.

5,345 members used group radio advertising.

42,559 members participated on the group window poster program.

111 of these groups employed supervisors to cooperate with their 17,946 members for better results.

The tabulation of voluntary groups by the Institute during 1933 recorded 444 voluntary wholesalers, and 60,896 affiliated retailers. Another tabulation in 1936 showed a total of 508 voluntary wholesalers, an increase of 44, and 77,889 affiliated retailers, an increase of 16,993 retailers.

By 1932, the voluntary groups accounted for 30 per cent of the total value of food sales and were achieving a position of importance.[56]

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[56]Gordon C. Corbaley, "100,000 Retailers," American Institute of Food Distribution, 1936.

The Third of the Evolutional Stages

The third stage of the voluntary group development started in the late 1930's and lasted until World War II was over in 1945.

Out of the uncertainty and diversity of operating methods there emerged a fundamental philosophy of the voluntary group movement that enabled the industry to keep abreast of developments. This philosophy was described by Mr. J. W. Tyler, President of Nargus, in an address before the National American Wholesale Grocers Association in 1933, in which he said:

> I realize that I dare not attempt to forecast what the retailer-wholesaler relationship may be 25 or 30 years from now. I feel, however, that it will be quite safe for me to state this personal opinion--it is no longer a question between the wholesaler and the retailer, but a question of the relationship between the wholesale and retail functions. These two functions, regardless of their structural form, ownership, or setup, must work in harmonious relationship to meet competition for public favor. Whether this will be effected between the independent wholesale grocer and the independent retail grocer, or through a retailer-owned wholesale house and its group of independent retail grocery members, or through all of these, is not as important as the fact that the wholesale function must serve the independent retail function to successfully maintain its position as the economic distributing power of this nation.[57]

It is apparent from Mr. Tyler's speech that in 1933 and a little earlier, the philosophy of the voluntary wholesaler being "retail-minded" was established.

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[57] J. W. Tyler, "Prophetic Forecast," Wholesale Grocer News, Vol. 32, No. 11 (February, 1958), p. 4.

The voluntary group was attempting to accomplish what the chains had succeeded in doing, to integrate the wholesale and retail functions and yet maintain the independence of the wholesaler and retailer. This is the meaning of the word "voluntary" and how it differs from the corporate chain, which ties the retail and wholesale functions together by means of capital. The chain makes one sale, to the consumer, which is also the goal of the voluntary.[58] A graphic picture of this may be seen in Table 11.

The road to closer cooperation and mutual benefits was being cleared by vigorous and capable voluntary wholesalers. A list of the improvements in the following areas were accomplished:

1. Modern store layouts and stores
2. Stock arrangements and displays
3. Reduction in credit and sales for cash
4. Self service
5. Uniform store signs, painting, lights and ventilation
6. Advertising, handbills, newspapers, radio, window posters
7. Buying allowances and advertising allowances
8. Competitive buying by wholesaler, quantity discounts
9. Concentration by retailers in buying from wholesaler
10. Pricing merchandise for competition and profit
11. Combating loss leader competition
12. Stock control and records
13. Credit losses
14. Store locations
15. Modern merchandising
16. Conversion of salesmen to supervisors.[59]

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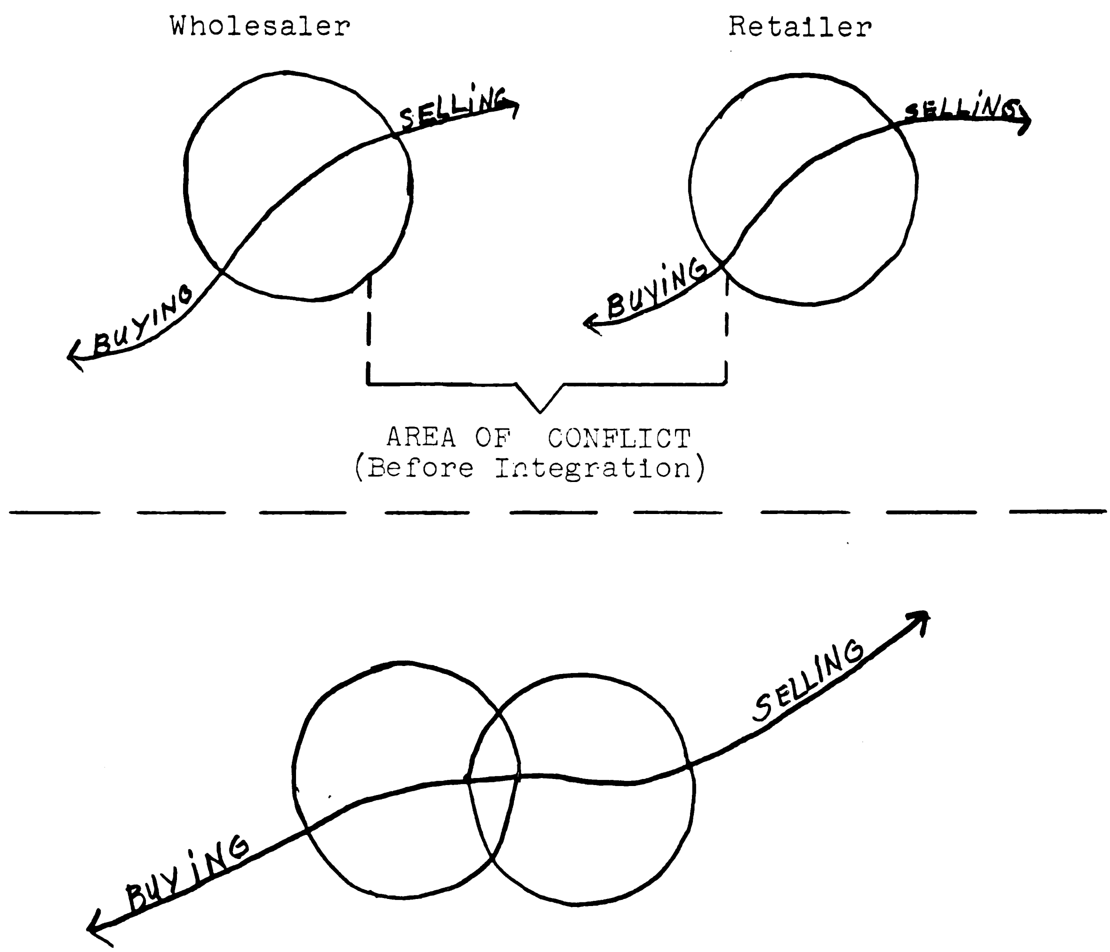
[58] Guy Wilson, "The Voluntary Group," Wholesale Grocer News, Vol. 33, No. 3 (June, 1958), pp. 23-24.

[59] Davidson, op. cit., pp. 88-239.

TABLE 11. Wholesaler-Retailer Cooperation[a]



(After Integration)

[a]U. S. Department of Commerce, <u>Effective Grocery Wholesaling</u> (Washington, D. C.: Government Printing Office, October, 1941), p. 23.

During the 1920's the voluntaries grew slowly and surely until by 1929 they had made some progress. From 1930 to 1939, the wholesaler-sponsored voluntaries made startling gains, increasing from 273 to 521 wholesalers, and increasing their retail members from 34,311 to 81,081. In 1933 the average group consisted of 125 members, and in 1936 consisted of 118 members, attesting to the fact that the voluntaries were now becoming selective, and basing their membership on quality and cooperation, rather than quantity.[60]

The voluntary groups of this era who were the most successful and enjoyed the greatest loyalty and enthusiasm from their retailers, were the ones who were "hard-boiled" and unyielding in their demand that the members play fair and do as the organization decided.

Unless he was aggressive, positive, well-informed, and retail minded, the wholesaler found his group of retailers breaking down into individual units again. The ability to command and obtain the cooperation of the retailers required the tightest control by voluntary groups; whether by contract or education, depended upon the wholesaler and the character of the retailers with whom he was dealing. If the retailer realized that his fullest success depended upon his complete cooperation, then education was sufficient. Otherwise, a strictly enforced contract was required to be the basis of cooperation.

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[60]Paul Sayres, Food Marketing (New York: McGraw-Hill Book Co., Inc., 1950), p. 79.

By this time the wholesaler realized that no voluntary group could be successful and meet its future competition if it was not a tightly-knit group, unified in its buying, selling, and advertising, and making available to its retailers all the services and aids essential to his serving his customers in the efficient manner of his chain store competitors.

With the coming of World War II the growth of the voluntaries was largely curtailed for various reasons. New members could not secure a large enough share of available "short" merchandise; and fixtures, equipment, and critical building materials were not available. Controlled brands lost some of their value as a competitive weapon, because the percentage markups allowed under wartime price ceilings permitted the retailer to sell manufacturers' brands at the same price as controlled brands.

Hence, the voluntary groups emerged from the war years about as numerically strong as they had been when the war broke out, but in dollar value of sales they had made considerable headway against the corporate chains. From 1941 to 1945 the voluntaries increased their dollar volume of sales by more than $1.5 billion dollars from $3,165,100,000 to $4,700,000,000, while in the same period the corporate chains showed an increase of only 870 million dollars, from $3,820,000,000 to $4,690,000,000. One of the principal reasons for this larger gain was that, on the whole, voluntary groups had been more loyal to their sources of supplies in the past and so managed to get a greater proportionate share of the available merchandise when supplies were scarce.[61]

The Birth of the Super Market

We have observed the history and progress of the voluntary from its beginning as a buying group to match the chains buying methods, and the creation of the syndicate and wholesaler sponsored voluntary groups. Through self-education and application, the wholesaler and retailer developed the spirit of cooperation and administration, resulting in both groups devoting themselves to the successful application of the voluntary system. As a result, by the late 1920's and early 1930's the voluntary groups began to successfully compete with the chains by emulating chain store methods and modernizing their operations.

The retailing picture in 1930 showed the retail food business divided between the chains, independents, and voluntaries. In 1928 available figures gave the chains about 40 per cent of the nation's food business. Despite the rise of voluntaries, during these early stages they required much more organization and experience and the chains continued to maintain an advantage over the independents.

Even though the chains had succeeded in lowering the over-all margins resulting in some lower prices, the ultimate savings by the food retailers to the consumers in 1930 was

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[61] *Ibid.*, p. 97.

not great. In fact, the gross margin of retail food chains increased from 16.92 per cent of sales in 1919 to 20.94 per cent in 1930, an increase of slightly more than 4 per cent.

TABLE 12. A Study Made by the Federal Trade Commission on Gross Margin of Sales for Grocery Chains from 1919 through 1930.

Year	Gross Margin--Per Cent of Sales
1919	16.92
1922	19.57
1925	20.56
1927	20.60
1928	20.92
1929	20.65
1930	20.94

The average percentage for the above period was 20.58 per cent.

The gross margin for chain stores in 1929 was 18.99 per cent, and for independents, 23.01 per cent of sales.[62]

The following table is a breakdown of the operations of The Great Atlantic and Pacific Tea Company for the years 1929, 1933, and 1935. In 1929 they operated 15,150 chain stores, with an average weekly sales of $1,317 per store.[63]

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[62]Federal Trade Commission, Chain Stores, Final Report on Chain Store Investigation, December 14, 1934, p. 67.

[63]United States vs. The Great A. & P. Tea Co., U. S. Circuit Court of Appeals, 7th District, Docket No. 9221, Records and Briefs, Vol. II, p. 162.

TABLE 13. Condensed Profit and Loss Statement of the Retail Store Operation of The Great Atlantic and Pacific Tea Company as a Percentage of Sales for the Years 1929, 1933, and 1935.

	1929	1933	1935
Sales	100.00	100.00	100.00
Cost of sales	81.64	78.10	80.50
Gross margin	18.36	21.90	19.50
Total operating expenses	15.52	19.08	17.56
Net Profit	2.84	2.82	1.94

These figures indicate that although the chains were in a better competitive position than the independents, their distribution costs were high and were increasing, and there did not appear to be any prospects of lowering their costs of distribution.

In 1930 our economy was beginning to slow down and was the start of the depression years. The number of employed persons dropped 9,341,000 between 1929 and 1932 and unemployment was at a figure of 12,300,000 persons. National income dropped from about 83 billion in 1929 to 40 billion in 1932, a drop of more than 50 per cent in three short years.[64]

The farmers could not sell their crops or livestock and were able to sell only at prices so low that they could not pay the interest on their mortgages. Foreclosures of mortgages

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[64]U. S. Bureau of the Census, Statistical Abstract of the United States, 1940 (Washington, D. C.: Government Printing Office, 1940), p. 315.

TABLE 14. National Income and Employment in the United States for the Years 1929 to 1936.

Year	National Income (in billions)	Number of Employed
1929	$83.3	35,563,000
1930	68.9	33,122,000
1931	54.3	29,715,000
1932	40.0	26,222,000
1933	42.5	26,133,000
1934	50.3	28,402,000
1935	55.9	29,725,000
1936	65.1	31,858,000

on farms was a common incident during these years. Manufacturing was at a stand-still and the manufacturers and processors could not sell what they had and their inventories filled the warehouses.

A symbol of the early 1930's was the many street corner vendors of apples. We had developed mass production, but at that period it was standing still, our purchasing power was at an all time low, and our distribution system had progressed very little. The chain store system had made little contribution to the over-all lowering of prices and cost of distribution.

The wholesalers and retailers of the 1930's were carrying large inventories and did not know how to move these surplus stocks. The necessity and challenge of the depression years was to bring prices down so that the pennies of that day could provide a maximum of purchasing power by providing lost cost foods for the consumer.

Our genius for mass production had provided a surplus of foods and products, but we were unable to match our mass production with an ability to distribute the goods economically by mass distribution. The economic and psychological time was ripe for the mass distribution, low-priced super market. The availability of buildings with large areas at low rentals and surplus quantities of merchandise presented an opportunity to establish huge markets.[65]

This was the picture of food retailing and wholesaling in 1930 when the super market entered the food distribution scene.

A super market is defined as a highly departmentalized retail establishment, dealing in foods and other merchandise, either wholly owned or concession operated, with adequate parking space, doing a minimum of $1,000,000 annually. The grocery department, however, must be on a self-service basis.[66]

Another definition is:

A super market is a departmentalized retail food store having four basic food departments; self-service groceries, meat, product, and dairy, plus any number of other departments, with the establishment doing a minimum yearly volume of $375,000.[67]

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[65]Trout, <u>op. cit</u>., p. 186.

[66]Zimmerman, <u>op. cit</u>., p. 18.

[67]Frank J. Charvat, <u>Supermarketing</u> (New York: The MacMillan Co., 1961), p. 7.

The philosophy and judgment of the early super market merchants was based upon the following elements:

1. That an overwhelming percentage of householders own automobiles.
2. That much of the family shopping is habitually done with the aid of a family conveyance.
3. That the distance to be covered is seldom considered when there is a bargain at the other end of the trip.
4. That the low cash price on a well-known or a continually used article or a number of items will suffice to draw a crowd.
5. That the price advantage offered by the super market stimulates buying in larger quantities, which generally results in more rapid consumation.
6. That so long as the super market selects a proper location and continues to offer sufficient advantages in price, it will attract the necessary trade regardless of state of prosperity or depression in the nation's economy.
7. That low overhead and low prices would combine to generate a large volume of business in a great many departments carrying a wide variety of merchandise under one roof.[68]

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[68] *Ibid.*, p. 47.

Although super markets emerged in force during the thirties, they were not absolutely new. Self-service stores and super markets, although they were not called that, had opened on the West Coast by a group of Southern California merchants in 1912.[69]

In 1916 Clarence Saunders opened his first self-service store in Memphis, Tennessee under the name of Piggly Wiggly and at the peak of the company's success operated 2,600 Piggly Wiggly stores throughout the country. Mr. Saunders popularized the self-service concept more than any other man and developed the turnstile and the checkout counter.[70]

However, the history of the super market industry is generally reckoned as of August of 1930, when Michael Cullen opened his first "King Kullen" market in Jamaica, New York. It was an immediate success and by 1932 Michael Cullen was operating eight super markets in which the grocery departments alone were doing a volume of 6 million dollars. By 1935 he had 15 units in operation and was in the process of organizing on a national scale. At the same time he had organized a King Kullen franchise to bring in the smaller independents under a voluntary group plan. The contracts had

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[69]Trout, op. cit., p. 186.

[70]Carl Dipman, "Food Retailing--A Restless-Ever-Changing Business," The Progressive Grocer, Vol. 31, No. 10 (October, 1952), p. 330.

been drawn, printed, and published, but at the age of 52 Michael Cullen died, and his plans were never executed.[71]

The Impact of the Super Market on the Voluntary and Chain

The independent merchant was the originator of the super market and in the early 1930's all super markets were operated by the independent merchant. These super markets took volume from both the chains and the independents.

The battle of the chains versus the independents was now substituted for the battle of the independents and chains versus the super markets. In the locations where the super markets operated, the small market lost 30 to 40 per cent of sales volume. Although many people in the food trade believed that the super market was a product of the depression only and would soon disappear, the super market continued to make inroads in the volume of competition and were thriving and expanding at a very fast rate.[72]

Following the success of King Kullen markets, the second one to pioneer in the super market industry was the Big Bear, that opened in Elizabeth, New Jersey in December, 1932 in an abandoned factory of the Durant Motor Car Company. The first three days of the opening of the Big Bear, they did a sales volume of $31,861.71, a fantastic figure for those days. The next week the consumers came, took their groceries away with

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[71]Zimmerman, _op. cit_., pp. 31-39.

[72]Gore, _op. cit_., p. 324.

them, and left $75,518.67. They kept coming back each week, many driving from places 50 miles and more distant. They bought food, cigars and tobacco, drugs and cosmetics, radios, auto accessories, and other products.[73]

There were eleven concession departments leased on a sales percentage basis as follows:

1. Meats
2. Fruits and vegetables
3. Dairy products
4. Fresh baked goods
5. Candy
6. Cigars and tobacco
7. Cut-rate drugs and cosmetics
8. Electrical and radio supplies
9. Auto accessories
10. Soda and luncheonette
11. Paints and varnishes[74]

The following is the operating statement of the Big Bear for the year 1933.[75]

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[73] Zimmerman, op. cit., pp. 39-42.

[74] Ibid., p. 42.

[75] Ibid., p. 43.

TABLE 15. Operating Statement of the Big Bear for the Year 1933.

		Dollar		% of Sales
Grocery department sales		$2,188,403		100.00
Cost of sales		1,925,795		87.99
Gross profit		$ 262,608		12.01
Expenses				
Rent	$15,516		.71	
Payroll	79,545		3.64	
Light and heat	7,881		.35	
Advertising	28,974		1.32	
Handling	20,157		.93	
Administration	11,248		.51	
Clerical	6,915		.32	
Insurance	3,523		.16	
Miscellaneous	7,462		.34	
Taxes	1,094		.05	
Depreciation	219	182,534	.01	8.34
Net profit from grocery operation		$ 80,074		
Rental from concessions		86,434		
Net Profit		$ 166,508		

The United States Census of Distribution for 1929 showed the average rental expense of the independent grocer was 2.84 per cent of sales and that of the chain stores was 2.56 per cent of sales. The super market rental was very low for the type of buildings they required, and the rent received by the super market owner from the merchants who leased the concessions resulted in the super market operator having no rental expense for his operation.

The annual sales per employee were 60 to 100 per cent above the national average. Payroll expense was 30 to 50 per cent below the average store, which was equivalent to a saving of about 3-1/2 per cent and more.

Thus the net reduction effected on only these two items of operating expense totaled about 6 per cent of sales, or approximately 33-1/3 per cent of the national average of total operating expense for food stores. When other savings effected because of the volume of operation under a low overhead are brought in, the total savings were 8 to 10 per cent on the average, which was about 50 per cent of the national average of total operating expenses for food stores.

The chains and independents were faced with a new competitor sponsoring a revolutionary system of mass distribution under one roof, with a low overhead and high volume generated by low prices and many items in one retail store. With an overhead of 12 per cent, he was able to develop a very satisfactory net profit, while the chains were operating with an overhead of slightly more than 20 per cent and the independents with 23 per cent.

Very few economists or experts in the field of distribution understood the significance of King Kullen and Big Bear, the forerunners of the super market revolution in retail distribution. They did not realize that the key to the successful retail operation of that day was low, low prices to the consumer. The latter was willing and even eager to travel to pick them up on a self-service basis and pay their cash to make the savings. With large and diversified stocks and departments, this developed high volume under one roof, which, when coupled with a low overhead, resulted in satisfactory profits and returns on investment.

Not realizing the significance of the super market at the onset, the chains and service independents joined in a common cause to fight the super market. They attempted by legislation and pressure of newspapers to stifle the super market, using the same tactics the independent retailer used in the 1920's to attempt to combat the progress of the chain stores. They turned to their food associations, newspapers, trade journals, politicians, and legislatures for action to slow down and impede the progress of the super market. Legislation was introduced in the New Jersey Assembly to outlaw selling at cost or below cost and a Senate resolution was introduced on March 6, 1933 to investigate super markets.

The Grocery Manufacturers of America, then known as The Associated Grocery Manufacturers of America, had received such a tremendous number of complaints in regard to the super markets selling their products at cost or below cost, that on February 24, 1933 they passed a resolution condemning the distribution practices of Big Bear as uneconomic and unfair. They also recommended that each manufacturer act individually in attempting to prevent the resale of his products at cost or below cost. The association framed and recommended legislation to correct the price cutting.

The retail merchants, both chain and independent, did not realize that people would drive 25 and 50 miles and more to shop in factory buildings, with rough fixtures and sacrifice service, to save money. They continued to fight the super markets with some of the following tactics:

1. Local drives were initiated to license all retail stores, and refuse to license super markets.
2. Parking limitations were imposed on super markets.
3. Many local ordinances imposed.
4. Union picketing.
5. Pressured newspapers not to accept ads of supers.
6. Retail associations pushed legislation to curb supers.

There were some in the food industry who realized that food distribution was changing and their small units would have to be replaced with larger combination markets, marking down prices, and doing a volume of business of $100,000 rather than the $1,000 their present small markets were doing.

The process of recognition of the time for change and adoption of super market methods was described by John Hartford, then president of A. & P., when he testified in September, 1945 in the anti-trust suit brought against them by the government. Mr. Hartford was discussing the super market competition which his company faced during the early 1930's, when King Kullen, Big Bear and many independents opened supers at a fast rate. Mr. Hartford stated:

> The first super market that came to my attention was in the Eastern Division. We did not take it very seriously at first, but the competition was pretty aggressive. Independents got into it pretty fast and I went out to Detroit and saw an old freight house converted into a super market. I talked to the personnel and made up my mind it was necessary for us to adopt that kind of operation. Later, we had a demonstration in Brooklyn of this--what this competition really meant to us. We had a competitor there by the name of King Kullen, and many independents who opened these stores very fast. We had a very profitable operation in Brooklyn, but in a very short space of time, they forced the Brooklyn unit into deep red figures. I was very much concerned because we had a conflict at headquarters whether we should adopt that kind of operation. Some said it would not last--you can't operate without selling under cost, some said, and that won't do. The independents were opening very fast and seriously injuring our business. I realized if it could happen there, it could happen in any units we had. We finally tried out a store to see whether we could run this type of operation without selling under cost. It was confirmed that we could and we went in very aggressively to super market operation.[76]

The effect of the super market on the operations of the A & P is evident from the following charts. In 1936 the A & P had opened up 20 super markets that were just getting into operation and in 1937 had 282 supers in operation, doing a volume of 864 million. The year 1937 was the year in which the A & P had the peak number of unprofitable units in its history when one-third, or 4,382 stores, of their 13,264 units were in the red. It is apparent that the decision of A & P to get into the super market business was a crucial, necessary and timely one, for this decision reversed the trend that was running against them.

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[76]Zimmerman, op. cit., pp. 44-49.

TABLE 16. Total Number of Stores and Number of Unprofitable Units of the A & P Co. for years 1933 to 1941.[a]

Year	Number of Stores	Number of Unprofitable Stores	% of Unprofitable to Total
1933	15,095	3,060	20.0
1934	14,995	3,871	25.8
1935	14,885	3,651	24.7
1936	14,697	3,467	23.6
1937	13,264	4,382	33.3
1938	10,827	2,354	21.7
1939	9,088	1,619	17.5
1940	7,143	889	12.4
1941	6,165	639	10.3

[a]Frank J. Charvat, Supermarketing (New York: The Macmillian Company, 1961), p. 161.

TABLE 17. Statistics on Total Number of A & P Stores, Number of Super Markets, Total Sales and Super Market Sales for the Years 1936 to 1943 (sales in millions of dollars).[a]

Year	Number of Stores	Number of Supers	Total Dollar Sales	Super Sales
1936	14,446	20	889	00
1937	13,058	282	864	53
1938	10,671	771	866	220
1939	9,021	1,119	976	401
1940	7,073	1,396	1,099	594
1941	6,042	1,594	1,348	846
1942	5,821	1,633	1,435	934
1943	5,751	1,646	1,259	761

[a]Same as above, p. 164.

The A & P can well be used as an example of the importance of having recognized the super market revolution in retail distribution in time and taking vigorous action in joining in the new era of distribution. How effectively and timely this was accomplished by independent merchants will be treated in the next subject of "Adoption of Super Market Methods."

Adoption of Super Market Methods and Philosophy

The low prices, self-service, diversified stock and departments, large displays and inventories of the early super markets had caught the public's interest and good will. The first self-service meat department was opened in 1941 and the pre-packaging of fresh fruit and vegetables in consumer size packages followed in the 1940's.

Combination food stores with meats had increased from 31.1 per cent in 1929 to 50.9 per cent in 1939 and to 65.85 per cent in 1948. At the same time, grocery stores without meats had declined from 27.6 per cent in 1929 to 20.5 per cent in 1939 and to 12.78 per cent in 1948. These figures indicated an almost complete acceptance of the philosophy of one-stop shopping by the consumer and the need for the food merchants to follow this trend promptly.

The following table is a breakdown on the changes in sales among the ten different types of retail food stores from 1929 to 1948.

TABLE 18. Changes in the Division of Sales Among Food Stores from 1929 to 1948.[a]

Division	1929	1939	1948
Delicatessen	1.6%	1.2%	.98%
Bakeries	1.6	1.5	2.30
Fruit and Vegetable Market	2.5	2.0	1.27
Other Food Stores	2.9	2.2	.62
Candy and Confectionery	4.5	2.7	2.06
Dairy-Milk Dealers	6.4	7.3	6.81
Meat Markets	10.6	6.8	5.64
Country General Stores	11.2	4.5	1.69
Grocery Stores (without meats)	27.6	20.5	12.78
Combination Stores (with meats)	31.1	50.9	65.85
Total	100.0%	100.0%	100.0%

[a]Carl Dipman, Editor, The Progressive Grocer, October, 1952, p. 65.

These early super markets were operating on gross margins varying from 10 to 14 per cent of sales,[77] which was a considerable reduction from the 19 or 20 per cent gross margin for the chain economy store and the independent grocer of the early 1930's.[78]

The chains were slow in adapting themselves to the super market trend and it was not until 1937 that they generally entered the super market field and in the early 1940's began to develop sales volume.

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[77]Charles F. Phillips, "The Supermarket," Harvard Business Review, XV, No. 2 (1938), p. 192.

[78]Zimmerman, op. cit., p. 49.

The revolutionary changes and developments in the food industry from the turn of the century to 1940 caused deep concern for the survival of the independent merchant. During these four decades, large-scale operations at the retail level took over a substantial portion of the sales volume. It became apparent that the independent grocers were increasingly in need of intelligent and whole-hearted support from understanding and efficient suppliers at the wholesale level. This need became more pronounced and urgent as the super market operators entered a period of great expansion. Out of necessity, independent wholesalers and retailers, through voluntary groups, developed and put into practice new and varied forms of wholesaler-retailer collaboration.

Drastic changes were taking place at the retail level due to this pressure of super market competition. Voluntary group members had changed from behind-the-counter clerk service offering credit and delivery, to the modern, self-service, cash and carry type of store.

Wholesalers had broadened their scope of operations in keeping with the retailers' demands for a one-stop warehouse, complete with perishables and non-foods.

Despite these improvements, the small independent retailer had a struggle for survival. Having succeeded in competing against the economy chain stores by duplicating to some extent their methods, he now found himself in a losing battle with the super markets. Many of the small operators revamped their stores into superettes, changing into self-service at least in the grocery department and were able to stay in business. He joined a voluntary group, was able to purchase at a small percentage above cost, and his small combination market had lower operating expenses, through the adoption of self-service, reduced credit and delivery, and larger volume.

The superette is a significant development in food retailing for the independent retailer. A superette is a retail food store with sales of from $75,000 to $375,000 annually, with a self-service or semi-self-service plan of operation. It is generally described as a small super market. The superette preceeded the super market and developed as a result of the same forces and conditions that brought about the super market. It came with the application of self-service and one-stop shopping, and thousands of these new markets were built with self-service features by both independents and chains. In addition, thousands of old-line service stores were converted by remodeling to self-service stores. It takes only a fraction of the money to finance a superette as it does a super market. The capital requirements are within the reach of many prospective merchants only a few of whom could provide the capital to establish a large super market.

The superette operator was able to do a good job and give a certain amount of personal service. Because of the high calibre of the superette operators, many became expert advertising and promotion men in their stores and developed into super market operators. While the superette has served as a stepping stone for many merchants to become super market retailers, this type of a store continues to be successful in its own right. It is efficient, has a good merchandise assortment, competitive prices, friendly atmosphere, and convenient location.

For the year 1960, superettes of both the chains and independents, with 22 per cent of the total number of food stores, accounted for [illegible] per cent of total food store sales.[79]

TABLE 19. Analysis of Superette Sales for 1960.[a]

Type	Number of Stores	Retail Sales	Percentage of Superette Sales
Independent	55,500	$11.40 billion	35
Chain	9,550	$ 750 million	31

[a]Frank J. Charvat, Supermarketing (New York: The MacMillan Company, 1961), p. [illegible].

Superettes in 1960 are generally self-service, complete food stores and are a very strong part of the independent business and total United States food business. They accounted for 35 per cent of all independent retail food sales in 1960.

The experience that wholesalers had gained in combating the chains had given them an insight into their new competition, and the development of their wholesalers' organizations afforded them a knowledge of retailing functions. From 1932 to

[79]"Facts in Grocery Distribution," The Progressive Grocer, 1960, pp. F1-F24.

1937 the wholesalers contributed to the opening of many super markets. In addition to assisting and educating retail members of his voluntary group to compete with the super markets, he entered the super market field in some of the following ways:[80]

1. By tying up with some independent super market retailers on a cooperative basis of supplying merchandise either on a cost plus basis or at unusually low prices.
2. By buying an ownership interest and becoming the chief source of supply, thus enjoying two profits.
3. By going into the super market business, either openly or under a pseudonym.

The threat of the corporate chain in the super market industry resulted in many independent super market operators joining the voluntary groups. More now than ever, the unaffiliated independent retailer needed the voluntary wholesaler for assistance in the integration of wholesaler-retailer operations to match the super market chains. The bigness of the super market, in physical size, volume required, capital needs, and the requirements of newly developed specialized skills and services, needed the assistance of qualified voluntary wholesalers.

During this period, the voluntary wholesaler found himself to be more than a warehouseman. He was in full partnership with his group retailers, with both dedicated to modern

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[80]Zimmerman, _op. cit._, p. 50.

and efficient merchandising of foods to the consumer.

For the purpose of obtaining factual information on the nature and extent of the new and improved methods of voluntary groups, the Committee on Modern Food Distribution was formed. It assembled data and information for a period in 1949, and based on these facts, published in 1950 a report titled, "The New Concept in Wholesaler-Retailer Teamwork." This report presented an objective and impartial picture of newly developed relationships between wholesalers and retailers up to the year 1950.

The author has extracted from this report the important methods adopted by the voluntary groups and a comparison of the cooperation extended to the voluntary retailers as contrasted to that which was available to unaffiliated independents. (See Table 20)

The extent to which the higher degree of cooperation between voluntary groups has contributed to their improvement and success is shown in Table 21.

The unaffiliated retailers, supplied by wholesalers who offered a minimum of services and cooperation essential to being competitive with modern super markets, delined 15 per cent in total United States sales from 1947 to 1956. In contrast, the affiliated merchants had achieved a degree of integration that resulted in a 15 per cent sales increase for the same period.

TABLE 20. Services Extended to Retailers During 1949 by Voluntary and Unaffiliated Wholesalers by Percentages.

Description	Per Cent Extended by Voluntary Wholesalers	Per Cent Extended by Unaffiliated Wholesalers
Keeping the retailer posted on market conditions	86	51
Keeping the retailer posted on prices being charged by his competitors	77	48
Suggesting resale prices to him on the merchandise supplied by the wholesaler	81	48
Regular newspaper advertising in behalf of their regular retailer customers	69	12
Distributing point of sale material on a regular basis	28	15
Preparation of direct mail pieces for their retailer customers	59	17
Use of supervisors	50	4
Use of order forms	43	8
Assisting in store planning	80	26
Employing store engineers	68	35
Assisting retailers in procuring store equipment	76	35
Engaging in retailer training programs	27	3
Offering perishable supervision	22	8
Assisting with non-foods departments	32	20
Accounting aids for retailers	20	9
Financial assistance for retailers	17	4

TABLE 21. Per Cent of Total United States Grocery Store Sales.[a]

Grocery Stores	1947	1950	1953	1956
Chains	37	36	36	37
Unaffiliated Independents	34	31	25	19
Affiliated Independents (both voluntary and cooperatives)	29	33	39	44

[a]"Facts in Grocery Distribution," The Progressive Grocer, 1960, p. F20.

An excerpt from a speech made on January 25, 1937, by M. M. Zimmerman, describes quite accurately the role played by the voluntary wholesaler and a description of his status during this period. In his address to the annual National-American Wholesale Grocers' Association in Chicago on the topic, "The New Trend in Food Distribution--The Super Market," Mr. Zimmerman stated:

> The wholesaler stands again in the strategic position of assuming the leadership of the independent Super Market movement. The wholesaler has graduated from the ranks of being a mere warehouseman.
>
> His experience in organizing and developing the voluntary system of retailing and the lessons he learned during his struggle with the chains has made him retail minded. It has also developed in him a spirit of confidence in merchandising and management, which, twenty years ago, might have changed the entire distribution picture.
>
> Now, twenty years later, this time a seasoned campaigner enjoying a strong financial and credit position and in the strategic position of obtaining his merchandise at the lowest competitive prices, he stands again at the cross-roads of another era. Here again is a new opportunity to make merchandising history and improve the economical distribution of foods.[81]

[81]Zimmerman, op. cit., p. 66.

The fourth, and present evolutional stage, contained in Part Two of this thesis, will discuss and portray how the wholesalers and retailers under the voluntary system, made use of their new opportunity to make merchandising history as stated by Mr. Zimmerman.

PART TWO

THE FOURTH EVOLUTIONAL STAGE

THE MODERN VOLUNTARY GROUP

CHAPTER III

THE VOLUNTARY WHOLESALER AT THE WAREHOUSE LEVEL

Establishing the Modern, Low-Cost Warehouse

At the start of the fourth evolutional stage after World War II, and in the following several years, changing methods in distribution and wide fluctuations in sales activities had created many problems for the wholesaler. During this post World War II period, the increased severity of competition had forced the wholesaler to operate on the basis of lower and lower margins per unit of goods, and to strive for increased sales volume to earn a profit. To accomplish this, the wholesaler had to reduce his physical handling costs, as his prices were at a level that made it difficult, and even impossible, for the retailer to offer competitive prices to the consumer.

When the voluntary first began to develop, the emphasis was on improving the retail stores, and very little was done to improve the efficiency of the warehouse operation. The wholesalers were, in the main, saddled with obsolete, multistoried warehouses, and were handling goods in the same inefficient manner as they had twenty and thirty years previously. The results were the same high handling costs; wholesale margins had not been reduced and were out of line with the chains.

The wholesaler operated on the principle of high margins per unit of goods and carried large stocks for long periods. He considered his building as a storage warehouse, and order assembly proceeded in a haphazard fashion. The high cost of these crude methods was not particularly disturbing to the wholesaler for many years, since his high costs of operating was more than covered by the high margins he had been securing from his retailers. However, as the tempo of super market competition increased and modern distribution practices of the chains reduced operating costs, the independent retailers found themselves in a non-competitive position, causing substantial losses of volume to both the retailer and wholesaler.

Outmoded physical plants, obsolete methods, and little or no mechanization, contributed to the high operating costs of the wholesaler at the warehouse level. Some of the reasons for the low warehouse productivity that resulted in high costs for the wholesaler and high prices for the retailer were as follows:

1. Lack of proper physical facilities.
2. Poor systems layout.
3. Inadequate or inefficient equipment.
4. Insufficient or inferior supervision.
5. Poor work methods.
6. Overstocked or understocked inventory.
7. Poor crew balance.

8. Lack of proper coordination.

9. An untidy or disarranged warehouse.

The need for efficient suppliers at the wholesale level became evident in the five year period since the end of World War II, as the chain stores entered a second period of expansion through the super market medium. It became apparent that the ability of the wholesaler to remain a potent force in this highly competitive field depended upon his effectiveness in making it possible for his retailer customers to perform their function of supplying volume goods at low prices to the great bulk of customers.

During this period the chains were building complete, modern, one-story warehouses, mechanized, with a modern system of receiving and order picking. Their operating costs, as a result, were lowered substantially, and they were able to handle tremendous tonnage at low costs. Although chain stores are not wholesalers, each performs about the same functions at the warehouse level, which include buying, storage, order assembly, and delivery. The wholesaler's competition is not only other wholesalers, but chains in their warehouse and supply functions, as well as in other areas. To a very large degree, the effectiveness of a voluntary group can be measured by the voluntary wholesaler's knowledge of chain store and super market operations in all of its phases, and how far he has progressed in duplicating or even surpassing chain methods.

The increased severity of competition forced the wholesaler to operate on the basis of lower margins per unit of goods. Survival depended on the ability of the wholesaler to adapt, among other things, his physical operations to these changes. Rising wage rates increased the cost of his warehouse operations, and in order to handle profitably an increased tonnage at lower unit margins, the wholesaler necessarily had to reduce his physical handling costs per unit in order to survive.

During this period, several hundred wholesalers who were unable or unwilling to adjust and improve their operations went out of business. Some 200 wholesale grocery houses moved into modern warehouses during the 1945-1955 period, and more than 300 have built modern warehouses since then. Many of the early pioneers are in their second and third round and more of new warehouse building.

Many voluntary wholesalers succeeded in obtaining added volume through increased sales by their members and by securing additional customers. However, they discovered that in order for increased volume to result in satisfactory profits, it had to be accompanied by an economical operating foundation of low cost warehousing. An impressive increase in sales, without the facilities to handle the added tonnage at a low and competitive overhead, often resulted in an accelerated breaking point of "no profit."[1]

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[1]"Achieving Low Costs in a Multi-Story Warehouse," Address by Moses Strock at New England Wholesale Food Distributors Seminar, April 2, 1959.

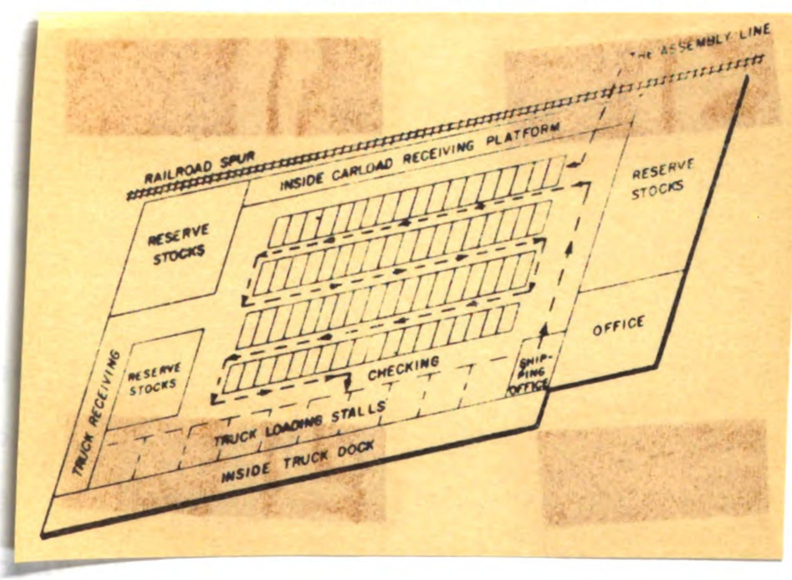
Lack of efficient facilities, equipment and methods caused increased operating costs due to overtime pay and additional labor required. It also delayed deliveries, caused customer dissatisfaction and contributed to a general breakdown in operations or an unsatisfactory or no profit operation.

As an example, there is a case of a firm doing an annual volume of 5 million dollars with a labor cost of 1 per cent or $50,000. Their volume increased to $10 million with the same limited facilities, and as a result their labor costs increased to $150,000 or 1-1/2 per cent all around. If they had an efficient operation, their labor cost should have remained at 1 per cent all around, or $100,000 annually. Their rent was $12,000 per year, so now this firm can pay up to $62,000 annually for rent if they desire to develop facilities to operate at a labor cost of 1 per cent. This is a direct case of added volume creating an accelerated "no profit" breaking point due to inefficient warehousing.

The first and most important step of the modern wholesaler was the willingness, desire and ability of its management to recognize and meet the problems of obsolete, high-cost warehousing. Many wholesalers took steps to establish and develop a low-cost warehousing operation and thereby placed their retailer customers in price competition with the chain stores. Wholesalers began to move into efficient and scientifically designed one-story warehouses, for fast, labor saving handling, to rack and palletize their merchandise, and use other mechanical aids to reduce costs in line with those of the chains in their warehouse and supply functions.[2]

The important factor in modern warehouse design in functionalization. Instead of providing just space, new warehouses provide specially designed receiving and shipping docks, checking-in space, storage, and order-assembly or selection line space. This functional concept of the building is basic to the assembly-line principle, which requires a physical separation of the functions of storage and order assembly.[3]

Figure 1. A One-Story Warehouse with Complete Assembly Line Built in 1940.[a]



[a]Effective Grocery Wholesaling (Washington, D. C.: Department of Commerce, October, 1941), p. 106.

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[2]"Achieving Low Costs in a Multi-Store Warehouse," Address by Moses Strock at New England Wholesale Distributors Seminar, April 2, 1959.

[3]Ibid., p. 116.

This one-story warehouse (Fig. 1) is located on the outskirts of a city, where the cost of land is relatively cheap, and away from the traffic congestion of the city proper. Along one entire 400 foot length of the building is a railroad-receiving dock over 20 feet wide, and along another length is the truck delivery and receiving dock, with ample facilities for more than 20 trucks to back in at one time.

A specified place in the warehouse is reserved for each commodity, and this space is identified by a code or stock number of the particular item. The stock is arranged in the warehouse by commodity-number sequence, and the commodities are listed on each order in the same sequence, facilitating rapid assembly and avoiding all backtracking. The order pickers follow a predetermined route in making one circuit of the warehouse, in the course of which they select commodities in the order in which the items appear on the invoice or order.

The goods are placed by the order picker on pallets, flats, or similar equipment and are mechanically brough to the loading platform and checking area in the order in which they appear on the invoice. The goods are then loaded for delivery and where feasible jack-lifts and electric equipment are used to place the pallets in the trucks.[4]

As goods are taken from the assembly line, they are replaced usually from the storage area by means of pallets and fork lift trucks, and in this manner there is a steady pattern

[4]Effective Grocery Wholesaling (Washington, D. C.: Department of Commerce, October, 1941), p. 107.

of order-picking, shipping and replacing of goods in the racks by fast, mechanized equipment.[5]

The functionalizing of a warehouse to receive, store, assemble and deliver merchandise with speed, accuracy, and efficiency is the key to low-cost warehousing. The adoption of mechanical equipment to rack and palletize, and the establishment of the assembly line for order picking, has enabled wholesalers to achieve substantial economies in physical handling costs per unit.

Due to declining unit margins, the unit cost of moving merchandise has become a significant factor in the progressive wholesaler's operations. Warehouse buildings and order assembly methods are inseparably related, and the wholesaler of today now views his building as a machine for the efficient movement of merchandise, rather than a storage warehouse. One important step which the modern wholesaler took, was to separate the function of storage from that of order assembly. Certain parts of the warehouse and certain portions of the stock are devoted to the function of storage, and are frequently referred to as "reserve stocks." A portion of the warehouse space and of the stock of each item are set aside for order picking or assembling, instead of assembling merchandise from all over the building, which is time consuming and costly. Within this area a predetermined route is

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[5] _Ibid_., p. 107.

established which the warehousemen follow in assembling the goods, or in "order picking" as it is commonly described. The order assembly stocks are referred to as "active stocks" and their arrangement in a certain sequence is described as an "assembly line" or "selection line" or simply as a "line."

Depending upon the design of the building and the number of floors, order assembling is divided into three classes of procedure:

1. Assembly from all floors.
2. Semi-assembly line, usually in a multi-story building.[6]
3. Complete assembly line, almost invariably in a one-story building.

Some wholesalers with multi-storied warehouses adopted the selection line principle by setting up semi-assembly lines. Under this system, they brought together on one floor the stocks of merchandise immediately necessary for order assembly, and kept the reserve stocks on other floors.

The most efficient and cost saving method is the complete assembly line in a one-story warehouse. The most efficient way to arrange the merchandise in the warehouse is on the principle of the ton-mileage concept and not by particular items. It is just as simple and easy for order pickers to learn to fill orders by slot or rack number and description,

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[6] *Ibid.*, p. 96.

than by description alone, and the benefits in lower costs and efficiency in order filling are overwhelming.[7]

The ton-mileage concept, which is the modern basis for efficiently locating merchandise in a warehouse, consists of a combination of four factors which affect the relative costliness of handling merchandise and are as follows:

1. Velocity--the rapidity of movement of goods.
2. Spread--the quantity of items in each category.
3. Weight--the weight of each item.
4. Bulk--the size of each case.[8]

Using sugar as an example for selecting a warehouse location, it should be located near the shipping end of the warehouse, since it has all four factors mentioned above. On the other hand, items such as tabasco sauce, celery salt, shoe laces, and shoe polish, having very little sales velocity, little weight or bulk, and a large spread of items, are placed in a remote area.[9]

It is estimated that from 15 to 20 per cent of the items in an average wholesale grocery warehouse constitute about 80 per cent of its total volume. Therefore, the problem is one of organizing the spread of inventory in such a way as to be able to minimize distance. The concept of ton-mileage is the goal of having a man order pick as much tonage as possible in

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[7] Ibid., pp. 97-106.

[8] William H. Meserole, "Materials Handling vs. Handling Materials," Wholesale Grocer News, October, 1955, p. 22.

[9] Ibid., p. 22.

the fewest number of steps, and consequently in the fastest time possible. This results in increased tons per man hour in order picking, which is used as a measurement of efficient warehouse operation.[10]

The effective use of a new or modernized warehouse with mechanical equipment and assembly line order filling, can be maximized, and handling costs further reduced, by the efficient coordination of office methods and techniques with the warehouse operation. Since warehousing methods and buildings are inseparably related, reorganization of the warehouse has affected and improved both the warehouse and office work methods.

Previous to modernizing their operations, many wholesalers handled orders in an extremely haphazard and wasteful manner. Useless forms and unnecessary steps were used, and yet much essential information was not available. Progressive wholesalers developed and integrated systems of order routine that were coordinated with the warehouse operation, and which resulted in substantial savings.

The order routine is closely related to the nature and sequence of the physical operation in moving merchandise.[11]

Modern order forms for the use of the warehouseman in order filling are set up in sequential numerical order and

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[10] Ibid., p. 22.

[11] Effective Grocery Wholesaling (Washington, D. C.: Department of Commerce, October, 1941), p. 85.

follow the physical location of the goods in the warehouse. Order routines may be of any of the following:

1. Non-transcription method, with copies of salesman's order used for order assembly. Not the modern method.
2. Non-transcription method, with separate floor slips for use in order assembly, produced mechanically in the office.
3. Pre-printed order form, with billing done from the actual order form. A common practice with many wholesalers.
4. The modern punch-card system. This system is widely used by the most successful wholesalers. It makes available to the wholesaler fast and efficient mechanical order writing, perpetual inventory, information on turnover of stocks in all categories, payroll, and many other items that the modern wholesaler requires for an intelligent and successful operation. It makes available a system of inventory control by which the wholesaler can take steps in the following areas:
   a. Eliminate slow moving and dead items.
   b. Keep "out of stock" to a minimum percentage of sales.
   c. Establish optimum purchase quantities.

d. Achieve a high rate of turnover, thereby requiring a smaller inventory investment.[12]

There still remained many otherwise alert wholesalers who were operating from grossly inefficient and obsolete buildings. The decision to move into a new warehouse was a matter of extreme importance and in many cases the decision as to the most profitable course of action was not an easy one to make. The sound basis for determining whether the move should be made was to compare the total operating expenses in the old warehouse with the estimated total of operating expenses in the new scientifically designed one. However, even after analyzing comparative costs, other factors had to be taken into consideration. Probably the most important of these factors was the availability of necessary funds and the effect of the new warehouse on the capital structure of the business.

For some wholesalers, the existing warehouse was a fixed plant from which they were in no financial position to move. Because of this, and possibly other important considerations, some wholesalers found it impractical to move to a new warehouse, even though it was clearly evident that such a move would be a profitable one. Such wholesalers made decisions on the basis of the alternatives open to them, which was to organize their operations in the existing buildings in

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[12] _Ibid_., p. 86.

a manner that would maximize returns from the warehouse operation at the lowest possible costs.[13]

Those wholesalers who were not in a position to build a new, single story warehouse, modernized their operations and effected substantial and sufficient savings by adopting installations tailored to their own particular needs. They made alterations to approximate semi-assembly lines for efficient order picking, installed conveyors and mechanized equipment practical to their physical layout, and other modern improvements to reduce handling costs.

The guide to be used in determining whether a warehouse is too old and inefficient is to find out whether it is possible to use techniques that are efficient. A warehouse is inefficient when it is apparent that the costs of handling goods are materially out of line with industry averages. The tons per man hour handled (both inbound and outbound freight) is a basic measurement and guide in deciding this problem.

The following case is a study by John C. Bouma of the United States Department of Agriculture and presents facts and problems which a wholesaler faced and the decision he made on whether to build a new warehouse or improve his existing multi-storied warehouse:[14]

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[13] Ibid., p. 119.

[14] "Achieving Low Costs in a Multi-Story Warehouse," Address by Moses Strock at New England Wholesale Distributors Seminar, April 2, 1959.

The wholesaler operated with 40,000 square feet equally divided between two floors and used a freight elevator between both floors.

1. Inbound and outbound freight handled on 4-wheel trucks.
2. Volume $2.5 million annually on dry groceries.
3. Rental costs $6,000 per year.
4. Employed 18 warehousemen at $4,500 each per year, or total of $81,000 annually.

The business volume had shown a steady growth for several years, but the possibility of continued volume increase was limited because of the high cost of operation and competitive conditions. The wholesaler had to make a decision on one of three alternatives:

1. To remain in the present warehouse and continue to fight a losing battle against high warehousing costs and competitive selling. (Obviously not a solution.)
2. To build a new warehouse.
3. To remodel or modernize the existing warehouse with maximum improved facilities.

The wholesaler should appraise his present and potential voluem, and the current and estimated future costs in the present warehouse, and then compare them with estimates of the costs in contemplated changes. He must then judge to what degree his warehousing costs will be lowered in a new warehouse or in improving his present one, and then make a choice.[15]

One of the important factors is to determine whether or not an increased cost of rental of a new building will be offset by reduced labor costs. Wholesalers often found themselves in a position there they had a very low rental charge for a leased building, or low interest, depreciation and maintenance charges for an owned building, but with a high labor cost. However, with a new warehouse, the rental costs would be higher and the labor costs lower.

Estimated costs were obtained for construction of a 30,000 square foot one story building capable of handling the existing business volume. Cost of land, building, including office space and pallet racks, totaled $220,000. Amortizing a loan of $220,000 for a 20 year period at 4.5 per cent interest would cost $16,698 per year.

Additional equipment in the new warehouse would include two fork-lift trucks and 5,000 pallets at a total cost of $21,000 and would be depreciated over a five year period at the rate of $4,200 annually.

It was estimated that the new warehouse could be operated with half as much labor, or a crew of 9 men instead of 18 men for a total labor cost of $40,500.

The figures shown in Table 22 are a comparison of annual warehousing costs in a 40,000 square foot multi-story warehouse with estimated costs in a new one floor 30,000 square foot

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[15] Ibid.

warehouse, with a current volume of $2.5 million and shows a savings of $25,642 with a new warehouse.

TABLE 22. Charting Present Figures Against Costs of New Warehouse.

Annual Expense In--	Existing Warehouse	New Warehouse
Rental cost (outside)	6,000	16,698
Equipment depreciation	none	4,200
Insurance and taxes	4,550	4,550
Supervision	6,500	6,500
Labor	81,000	40,500
	98,050	72,408

The savings would be larger if allowance is made for the value of the land and building after the 20 year amortization period and also for the market value of the old warehouse.[16]

The study included the alternative of achieving low cost warehousing through the installation of conveyor equipment in the existing warehouse. Estimated cost was $21,000 and depreciation over a five year period would be $4,200 annually. A warehouse crew of 12 men would be required compared with the present need for 18 men.

The figures in Table 23 are a comparison of annual warehousing costs in a 40,000 square foot multi-store building using present methods compared with a conveyor system in the same warehouse, volume of $2.5 million annually.

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[16] Ibid.

TABLE 23. Charting Present Figures Against Costs with Conveyor System.

Annual Expense In--	Existing Warehouse	Existing Warehouse with Conveyor System
Rental cost (outside)	6,000	none
Equipment depreciation	none	4,200
Insurance and taxes	4,550	4,550
Supervision	6,500	6,500
Labor	81,000	54,000
	98,050	69,250

An estimated savings of $28,800 in warehousing costs would be effected with a conveyor system in the existing warehouse compared with an estimated annual savings of $25,600 in a new one-story warehouse.[17]

The wholesaler chose to install the conveyor system in the existing warehouse at $636.00 less than the estimated cost and the number of warehousemen was reduced from 18 to 11 instead of 12 as originally estimated. As a result of good work methods and the conveyor system, the annual savings totaled more than $33,000. Another important consideration is the fact that a new 30,000 square foot warehouse could handle only the present voluem, and would require expansion as volume increased. A larger warehouse could be built later to more accurately meet the future needs of the company.

The timing of the decision as to when to move to a larger warehouse would be governed in the main by the ability

[17]*Ibid*.

of the conveyor set-up to efficiently handle the total tonnage. As more volume is added and it becomes necessary to ship more truckloads of goods each day, at some time in the business expansion the conveyor line will not be able to handle the tonnage. When this point is reached, notwithstanding all the improvements, the conveyor line will not be able to handle the volume and a new warehouse will be needed.

This is an example of the situation many wholesalers found themselves in during the decade following World War II. They effected labor savings by modernizing their existing facilities and equipment as against building a new warehouse. These improvements placed them in a competitive position which contributed to increased volume and improved profits, and later most of these same wholesalers built new one-story warehouses.[18]

Figure 2 shows a floor plan of a modern, one-floor warehouse containing 200,000 square feet and is situated on a 27 acre tract. It has 52,000 square feet of refrigerated space for perishables, including produce, frozen foods, fresh and frozen poultry, dairy items, and baked goods. It serves as a virtually complet one source of supply. It has 9,000 square feet for a cash and carry operation on a self-service basis where retailers can select from about 4,000 to 6,000 items and buy in half-case quantities if desired.

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[18]*Ibid.*

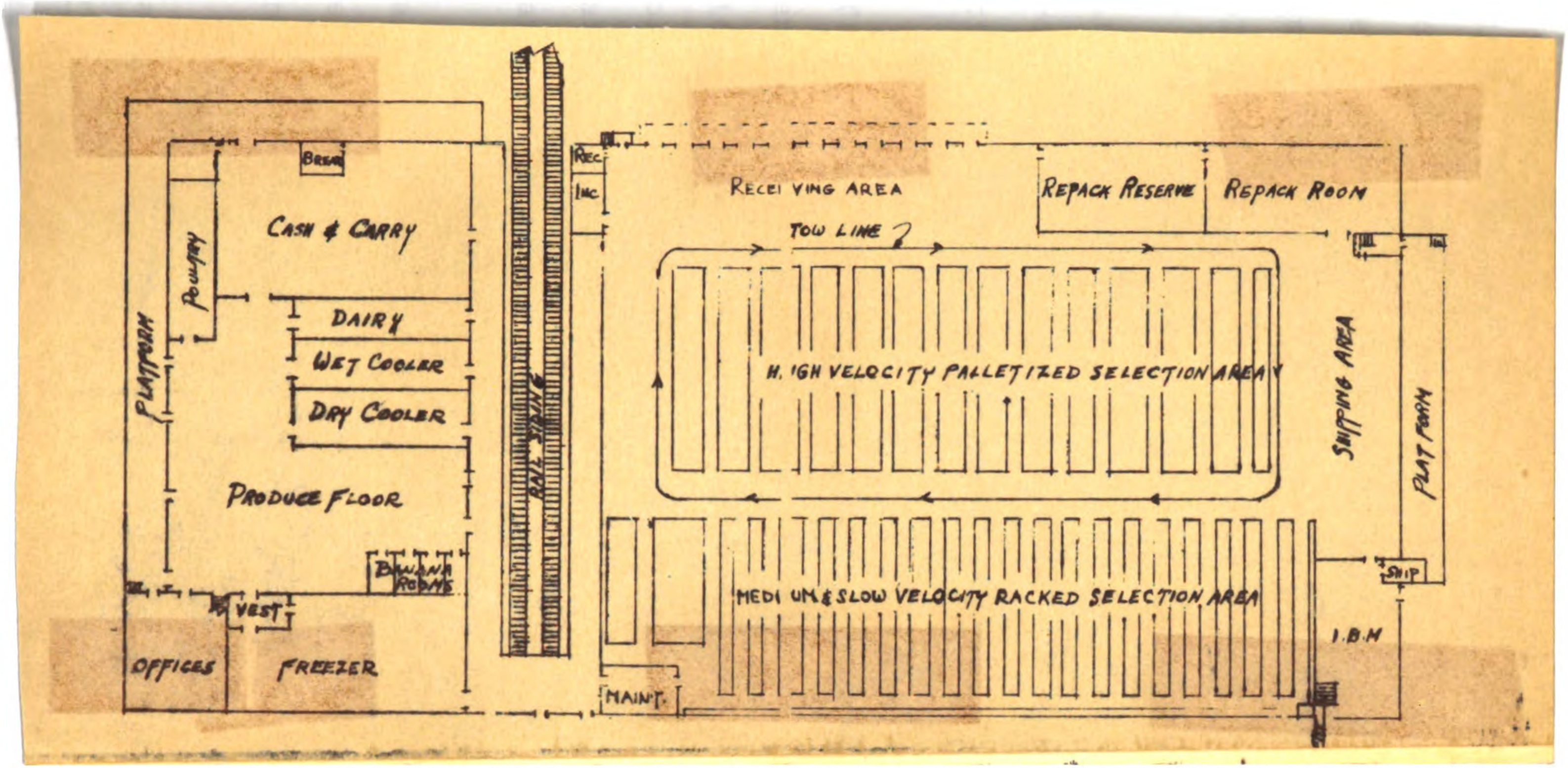

Figure 2. Floor Plan of a Modern, Complete Supply Depot of a Voluntary Wholesaler, Erected in June, 1959.

Source: Wholesale Grocer News, November, 1959, p. 18.

The receiving dock accommodates 8 rail cars and 11 trailers. The shipping dock, with three different platform heights, permits 20 trailers to be loaded simultaneously. Incoming shipments are palletized in the cars and trailers, and are moved into storage areas by electric "walkies." Merchandise is placed in the warehouse according to weight and velocity and by the slot system. Orders are filled by means of a continuous chain in-floor towline 850 feet long that encircles the selection area, and carries the trucks loaded with orders to the shopping dock area. A total of 55 carts may be attached to the towline simultaneously.[19]

This illustration and description of a modern, low-cost, efficient warehouse operation is representative of a great many of our voluntary group wholesalers. In our modern evolutional stage of voluntary group growth and integration, the voluntary wholesaler has successfully established low-cost warehouses and coordinated them with efficient office and warehousing methods.

As a result, during the past decade, voluntary wholesalers have reduced their operating costs by approximately 25 per cent, and their operations today measure favorably with industry averages. (See Table 24)

Today, voluntary wholesalers have established new standards of warehouse efficienty, and the progressive wholesalers

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[19] Wholesale Grocer News, November, 1959, p. 18.

are operating on two to four per cent of sales. They have become so efficient that today some 2,000 chain stores report that they no longer buy direct, but from a voluntary or cooperative wholesaler.[20]

TABLE 24. Reduction of Voluntary Wholesalers' Margins as Compared to Unaffiliated Wholesalers, 1950 to 1955.[a]

Group	1950	1955
Voluntary Group Wholesaler	7.5%	5.8%
Unaffiliated Wholesaler	8.6%	7.5%

[a]Robert W. Mueller, Editor, "The New Look in Wholesaling--What it Means to the Retailer," The Progressive Grocer, May, 1956, p. 1.

The modern voluntary wholesaler is searching for new vistas and developing new efficiencies in modern low-cost warehousing. Some of these areas are as follows:

1. Establishment of cash and carry, self-service warehouses.
2. Developing modern financing concepts for wholesalers, such as "return on investment" concept.
3. Closer and periodic inventory controls for faster turnover, fewer mark-outs, and spotting slow movers.
4. Periodic operational reviews.

[20]"Progress," The Progressive Grocer, July, 1961, p. 2.

5. Evaluation of movement of each item on basis of regular velocity turnover reports.
6. Tons per man-hour reports on inbound and outbound freight, to control handling costs.
7. Analysis and discontinuing of some slow moving items.[21]

The establishment and development of low-cost warehousing and distribution by voluntary wholesalers has made it possible for affiliated retailers to own their merchandise at as low a price or lower than chain competition. To a great extent, this has been responsible for the spectacular growth of voluntary groups in the past decade.

The Modern Warehouse as a Complete Supply Depot

Not so long ago the wholesale grocer was almost exclusively a distributor of dry groceries. Today he handles many more of the product lines sold in the modern food store, and has moved steadily toward the goal of a complete supply depot for retailers. Affiliated wholesalers have moved much farther and faster into perishables and general merchandise than unaffiliated wholesalers, and most modern voluntary groups are now operating as complete supply centers.

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[21] Daniel J. Bartz, Editor, Management Controller's Bulletin, National American Wholesale Grocers Association, Vol. I, Issue 8 (December, 1958).

The progress during the past five years from 1955 to 1960 toward a complete one-stop wholesale supply depot is illustrated by the following tables.

TABLE 25. Lines Handled by Grocery Wholesalers During 1960.[a] (In per cent)

Lines	Voluntary	Cooperative	Unaffiliated	All Wholesalers
Fresh Meats	41	31	--	24
Produce	41	45	28	40
Frozen Foods	72	77	13	52
Health & Beauty Aids	89	89	93	90
Toys	41	23	22	29
Housewares	45	40	51	46
Soft Goods	77	25	55	52
Stationery	65	63	57	62
Bread	17	20	--	12

[a]"Facts in Grocery Distribution," The Progressive Grocer, 1961, p. 21.

TABLE 26. The Number of Buying Offices to be Called on at the Distributor Level to make Products and Promotions Available at the Retail Level.[a]

Type	1950	1959
Voluntary Wholesaler	519	635
Cooperative	191	216
Chain Stores	323	340
Unaffiliated	3,328	1,850
	4,361	3,041

[a]"Facts in Grocery Distribution in the 1960's," The Progressive Grocer, 1960.

TABLE 27. Retail Sales Per Buying Office for 1959.[a]

Type	Number of Offices	Total Retail Sales (in billions)	Average Retail Sales per Office (in millions)
Chain Stores	340	$20.0	$58.8
Voluntary and Cooperatives	851	22.5	26.4
Unaffiliated	1,850	7.5	4.1
	3,041	$50.0	$16.4

[a]Same as Table 26.

TABLE 28. Average Number of Items Handled by Voluntary Wholesalers from 1950 to 1960.[a]

Year	Items
1950	2,470
1956	3,280
1958	4,180
1960	5,100

[a]Same as Table 25.

The increase in the number of voluntary wholesalers handling lines other than dry groceries is indicated by the following comparative figures.

TABLE 29. Comparison of Lines Other Than Dry Groceries Handled by Voluntary Wholesalers in 1955 and 1960.[a]

Items	1955	1960	Increase
Health and Beauty Aids	77%	89%	12%
Fresh Meats	18%	41%	23%
Fresh Produce	29%	41%	12%
Frozen Foods	49%	72%	23%
Housewares	16%	45%	29%
Toys	19%	41%	22%
Soft Goods	--	77%	--
Stationery	--	65%	--
Bread	--	17%	--

[a]1955 figures taken from: "Mass Marketing Through Wholesalers," Address by Robert W. Mueller, Editor, The Progressive Grocer, Annual Convention, National-American Wholesale Grocers Association, March 18, 1957, p. 24.

1960 figures taken from: "Facts in Grocery Distribution," The Progressive Grocer, 1961, p. 21.

The wholesaler has not only strengthened his retailer customer by broadening his lines, but in addition has expanded the basic products he handles by increasing the number of items and spread in his traditional lines. Such progress has permitted the wholesaler to serve his retailer more completely as a low-cost one-stop operator, and to be competitive with the most advanced retailers in the food industry.

Voluntary Wholesalers' Sales Growth and Expansion

Two decades ago, the grocery wholesaler seemed to be on the way out. Many considered this form of distribution old-fashioned, inefficient, and unable to compete in the new era of super marketing. But the gloomy expectations did not materialize. First a few wholesalers, then hundred, modernized their methods, policies, and plants, to meet the new needs of their retailer customers.

Many important changes have occurred in the food industry in the past ten years, but none has been more significant or has had more impact than the astounding change in grocery wholesaling. Over the past five years, voluntary wholesale grocery sales have increased 83 per cent, even faster than the 34 per cent increase in retail food sales, and the average wholesaler gains of 49 per cent over the same period.[22]

Sales of all wholesalers in 1960 increased 7.2 per cent over 1959, with voluntary group wholesalers increasing 12.7 per cent over 1959. These figures exceeded the 4.5 per cent sales gain in food retailing for 1959.[23] The great growth in wholesaler sales rests to the fullest degree on the concept of retailer-wholesaler teamwork, which has been developed by the voluntary groups over the past four decades. (See Table 29)

Voluntary and cooperative wholesalers accounted for a sales increase of about three times more than the increase made in total retail store sales for 1959.

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[22]"Facts in Grocery Distribution," The Progressive Grocer, 1961, p. 20.

[23]Ibid., p. 20.

TABLE 30. Sales Gains by Type of Wholesaler 1960 vs. 1959.[a]

Type	Per Cent Gain
Voluntary wholesaler	+ 12.7
Cooperative wholesaler	+ 13.9
Unaffiliated wholesaler	- 4.5
Average all wholesalers	+ 7.2

[a]"Facts in Grocery Distribution," The Progressive Grocer, 1961, p. 20.

While the modern wholesale food distributor is found everywhere in wholesaling, it is in the ranks of voluntary and cooperative wholesaling that he is most successful, and where his skills and services are most effective. While each year, for five years from 1956 through 1960, wholesaler sales have exceeded the rate of gain of the total food retailing sales, such gains are attributable to the affiliated wholesalers, as the unaffiliated operators have been losing ground.[24]

TABLE 31. Wholesale Grocer Sales Percentage Gains over Previous Year.[a]

Year	Percentage Gain
1956	11.6
1957	10.5
1958	6.6
1959	6.3
1960	7.2

[a]Address by Robert W. Mueller, Editor, The Progressive Grocer, to Annual Convention, National-American Wholesale Grocers, March 14, 1961.

[24]Ibid.

For the fifth consecutive year wholesale grocers showed a greater gain in sales than did the nation's food stores, 7.2 per cent compared with 4.5 per cent. Voluntary and co-operative wholesalers continued to progress, while unaffiliated wholesalers declined in numbers and sales. Voluntary wholesaler sales exceeded those of cooperative wholesalers by $1,710,000,000, and those of unaffiliated wholesalers by $1,510,000,000.[25]

TABLE 32. Wholesale Grocery Sales for 1960.[a]

Type	No. of Firms	Sales (in billions)	% Gain 1960 vs. 1959	Average Annual Sales (in millions)
Voluntary Group Wholesaler	525	$4.95	+ 12.7	$9.24
Cooperative Wholesaler	200	3.24	+ 13.9	16.20
Unaffiliated Wholesaler	1,760	3.44	- 4.5	2.02
Totals	2,485	$11.63	+ 7.2	$4.68

[a]"Facts in Grocery Wholesaling," The Progressive Grocer, 1961, p. 20.

Voluntary wholesalers with slightly over 20 per cent of the number of wholesalers, did more than 42 per cent of the total wholesale volume in 1960. Cooperative wholesalers did

[25]"Facts in Grocery Wholesaling," The Progressive Grocer, 1961, p. 20.

28 per cent of the total wholesale volume in 1960 and unaffiliated wholesalers did 30 per cent.

The sales volume of voluntary group wholesalers for 1960 of $4.95 billion represents sales increases generated from voluntary wholesalers of various sizes. It is interesting to point out at this time, however, that there are today giant voluntary wholesalers who have attained sales equal to and greater than many of the giant corporate chains, as the following table illustrates.

TABLE 33. Nine Top Volume Voluntary Wholesalers and Their Estimated Retail Sales for 1960.[a]

Name	City and State	Estimated Sales of Retail Customers (in millions)
Alfred M. Lewis, Inc.	Riverside, Calif.	$ 815.1
Consolidated Food Corp.	Chicago, Illinois	562.8
Thomas & Howard	Charlotte, N. C.	440.7
Abner & Wolf, Inc.	Detroit, Michigan	435.6
Super Valu Stores	Minneapolis, Minn.	342.6
Nash-Finch Co.	Minneapolis, Minn.	333.0
The Fleming Co.	Topeka, Kansas	310.0
Seeman Bros.	Bronx, New York	281.4
Smart & Final Iris Co.	Vernon, California	277.2

[a]<u>The Progressive Grocer</u>, June, 1961, p. 4.

The modern wholesaler of today might have difficulty in recognizing his counterpart of 1930, or even of 1940. The wholesaler has been called upon to keep step with the most modern of retailers who have been on the firing line with the chains. Research, study, and the application of modern operations and streamlined methods have brought substantial savings in the physical operation of a wholesale grocery plant.

Wherever wholesalers have survived, their places of business, their business psychology, their internal methods and procedures of today generally bear but a fleeting resemblance to the establishment of former years. They have perfected their methods and have become experts in performance. Warehouses today are marvels of modern distribution, and merchandise flows in rapid motion, aided by mechanized equipment, and are handled at a cost that represents but a fraction of what formerly was considered an efficient operation.

The modern wholesaler's new food distribution centers and operating methods form the foundation for the present highly integrated voluntary groups. This new distributor has given the voluntary groups guidance, service, and efficiencies long regarded as unique with the corporate chains, and are a prime factor in moving products faster and at the lowest competitive costs in the industry.

The voluntary wholesaler of today is doing more than offering merchandise at low prices. All of the services essential for the effective operation of a retail super market and superette, and at one time considered to be the sole function of the retailer, are now offered by voluntary wholesaler experts. This subject will be discussed in Chapter IV.

CHAPTER IV

EFFECTIVE SERVICES AND FUNCTIONS THAT VOLUNTARIES PERFORM

The Need for Effective Services

Up to recent years there had been little cooperation between the wholesaler and retailer in the vital area of retailer services. Planning of promotional events, merchandising and advertising were functions with which wholesalers were often unwilling or unable to assist retailers. There was little or unsatisfactory heop forthcoming from wholesalers in areas of finding new sites, helping to finance new store construction, planning efficient store layouts, and in many of the other retailing problems where the wholesaler could properly be of service.

The retailer was often reluctant to concentrate purchases with a single wholesaler and thus reduce wholesaling costs. Few retailers felt it advisable to take the wholesalers into their confidence and ask for assistance in the many decisions where the wholesaler could have been of direct aid.[1]

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[1]Robert W. Mueller, Editor, "The New Look in Grocery Wholesaling, What it Means to the Retailer," The Progressive Grocer, May, 1956, p. 6.

Today the retailer and wholesaler realize that each can be more successful working together. As a result of this attitude, the independent form of distribution, as represented by the voluntary group, is stronger than at any time since the 1920's, and promises to become even stronger in the future.

Independent retailers need the same services from their wholesale suppliers as a chain store manager requires from his warehouse and headquarters. The wholesaler-retailer teamwork in a voluntary group permits a division of labor in which the wholesaler supplies the essential services on a large scale basis better and more economically than the independent retailer can supply them for himself. This relationship leaves the retailer free to devote his time, energy, and thoughts to the important money making phases of his business; building sales and controlling expenses.

Retailer services are essential not only to independents who have been operating successful super markets and superettes, but extremely important to the individual who desires to enter the super market business. This individual faces increasingly complex problems that are difficult to overcome alone. Large amounts of money are required for investment in land, buildings, fixtures, and inventory. Varied and highly specialized services are required which call for particular knowledge in several fields. The voluntary group system is the efficient way for an independent to enter the super market or superette field and be successful.

The development of the voluntary groups since World War II has occurred through the effective establishment of essential retailer services. The success of the wholesaler is predicated upon how efficiently his retail customers perform their functions.

One of the determining factors in the success of a voluntary group is the degree of "retail-mindedness" present in the thinking of each voluntary group. To describe a wholesaler as being "retail-minded" is to pay him a high compliment, since he recognizes the importance of knowing the retail part of the food distribution business.

"Thinking retail" is more than a statement of policy of successful wholesale grocers. It is reflected in the performance of all phases of their operating functions. In the current fourth evolutional change in voluntary groups, the fundamental objective and responsibility of the voluntary wholesaler is the establishment of a low-cost supply depot that satisfies all the retailers' needs; and the development and refinement of services essential to modern and efficient retail operations.

In comparing the functions of the voluntary wholesaler to that of the chain organization, the latter does not sell to its unit chain stores and there is actually only one sale to the consumer. The wholesaler and retailer of the voluntary group seeks to accomplish the same result--one sale to the consumer. By altering the traditional distribution of wholesaler-retailer operations, they have succeeded in duplicating the "single-sale" method of the chains, while at the same time preserving their separate status.

To accomplish this modern single-sale operation, the independent merchants have resorted to new and improved retailer functions and services. The voluntary group in theory and practice removes from the retail stores the non-selling functions such as buying, advertising, and many other varied services. These are performed more efficiently and economically on a large centralized scale.

The voluntary wholesaler of today is a low-cost distributor who is aware of the mutual adventage of concentrating volume with a definite group of cooperating independent retailers. He is continuing to develop a teamwork program for his affiliated retail members and make available to them low cost distribution and services essential to the competitive operation of super markets and superettes.

The wholesaler who sponsors a voluntary group changes his function. His aim is to assist his retailers to serve their customers in the most efficient and profitable way. In order to attain a maximum of effectiveness, the voluntary wholesaler must be an expert in retail management, which, in conjunction with buying and warehousing, are the important functions of a voluntary wholesaler. The more a wholesaler learns about retailing and selling to the ultimate consumer, the more successful will be his voluntary group. The wholesaler must be able to discern and often anticipate the problems of his retailers and offer services that will be effective. The ability of the independent wholesaler to remain a potent force in the highly competitive food distribution field depends upon how efficiently he and his retail customers perform their functions of supplying merchandise at competitive prices and under competitive conditions.

Recent years have seen the independent segment of the food industry solidifying its position through the vitality of leadership by wholesaler-sponsored voluntary groups and retailer-owned cooperatives. They have established headquarter operations that provide the same central services and functions that corporate chain headquarters provide for their markets. There is little question that were it not for these programs of joint effort, the independent operator would have faced extinction, or at best, survived on the most marginal of terms.[2]

The extent to which voluntary wholesalers are currently rendering varied services to their groups may be observed by the figures shown in Table 34.

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[2]Julian H. Handler, "The Editor's Corner," Super Market News, January 26, 1959, p. 2.

TABLE 34. Services Rendered by Voluntaries in 1959.[a]

Services Offered	Per Cent of Units Offering
Merchandising bulletin	100
Advertising	99
Store planning	100
Equipment procurement	85
Store level merchandising aid	95
Assistance in obtaining finance	86
Cooperative buying of perishables	67
Store level management aid	81
Training program	61
Specialist supervision for perishables	69
Accounting	66

[a]"Cooperatives and Voluntaries--Sales Power Personified," Food Business Staff Report, June, 1961, p. 29.

The Order Form

Throughout the development of the voluntary group system, efforts have been constantly expended to adopt the techniques of the chains, wherever and whenever possible. In past years, the corporate chain has had the advantage of not having to sell merchandise to its own stores. The method of the chains involved one single sale to the consumer.

The wholesale food distributor up to recent years operated through salesmen travelling the trade, and calling on each customer at least once a week. The salesman was just about the wholesaler's only line with his retail customers, and up to a few years ago, no wholesaler could conceive of trying to operate without salesmen. However, this method required the expensive use of one additional selling function than the chains needed.

The voluntary groups were able to duplicate the chains' "single sale to the consumer" methods by introducing the pre-printed order form, which proved to be one of the most spectacular and profitable developments of the voluntary groups. It has been estimated that the cost of order forms range from 20 to 65 cents each, and the cost of a salesman's call was approximately $4.00.[3]

With the use of the order form, no salesman contacts were necessary. This system has replaced salesmen with supervisors or field men, who concentrate their efforts on retailer services and assist in retailer selling. Whereever possible, wholesale grocery salesmen have been retrained as supervisors and thereby their positions have been upgraded, or when impractical they have been replaced by trained supervisors. The situation of supervisors for the salesmen has removed the salesmen from the expensive routine of order-taking, for the mose lucrative position of supervisor to the retailer.

The introduction and use of the pre-printed order form has led to substantial cost savings and developments in sales, warehouse, and invoiving techniques for wholesale food distributors. Its use has enabled the wholesaler to provide a low cost merchandising program enabling retailers to remain competitive with chain operations. The pre-printed order form for grocery products, health and beauty aids, frozen foods,

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[3]Dan Bartz, Wholesale Grocer News, October, 1956.

and perishables is an absolute requisite for a modern operation with its widespread use of electronic equipment, slot selection methods, and substitution of sales supervisors for salesmen.

The order form or order book usually follows the chain type. It is usually printed with columns for four week periods, although some wholesalers mimeograph or ditto their order forms in their offices, and issue them weekly. Merchandise is grouped by categories on the order form to help retailers locate the various commodities and designate quantities with a minimum of effort. The code or stock number, description, pack, shipping weight, cost, per cent of gross profit on selling prices, and suggested selling prices are clearly and conveniently indicated. An additional important feature embodied in some order forms is the item's warehouse turnover velocity to guide retailers in their ordering. The set up of the order form increases the efficiency of order filling, since order picking is done from the order form itself, or from an I. B. M. or other copy. Table 35 is a sample of a portion of an order book taken from a modern order book of an outstanding national voluntary group.

Some order forms are designed for four deliveries by means of strips which are torn off the order form. For each item, space is provided in the order form for the retailer to keep a permanent record of merchandise ordered.

TABLE 35. Sample of Portion of an Order Book.[a]

1 2 3 4	Code		Pack	Mfg. No.	Cost	CRP
		Coffee Cream				
	6030	Pream	24/4 oz.		6.34	.31
	6033	Pream, Lrg.	24/7 oz.		10.24	.51
		Instant Milk				
	6040	Carnation, 3 qt.	10-1/2 oz.	1005	5.80	.29
	6043	Carnation	12/8 qt.	1015	7.50	.73
	6046	Carnation	12/14 qt.	1020	11.70	1.15
	6049	Carnation Choc.	12/10 oz.	1205	3.80	.39
	6060	I.G.A.	24/5 qt.		6.75	.35
	6065	I.G.A. Choc.	24/1 lb.		7.45	.39
	6070	Pet	24/4 qt.		7.55	.39
	6073	Pet	12/8 qt.		7.30	.73
	6076	Pet	12/12 qt.		9.32	1.05
	6080	Starlac	24/3 qt.	3030	5.80	.29
	6083	Starlac	12/6 qt.	3065	6.40	.67
	6087	Starlac	12/12 qt.	3070	10.20	1.05

[a]Order Form of Cressey, Dockham Company, I.G.A. Voluntary Wholesalers, Salem, Massachusetts.

Order forms are either forwarded to the retailer by mail, or left by the truck driver when delivering an order, or by a supervisor on his regular call. The retailer fills out the order and mails it on a specified day to his wholesaler, who then assembles it and delivers the order on a predetermined day.

In addition to lowering costs and improving the wholesaler's efficiency, there are many added benefits that the retailer obtains as a result of the introduction of the order form. Some are as follows:

1. Makes buying easier, more accurate, saves time and permits the retailer to devote his attention to the important areas of merchandising and store supervision. The retailer can prepare the order form at a time convenient to him, rather than when pressed by a salesman.

2. A good order form suggests ideal stock arrangements and enables the retailer to coordinate supply requirements on a turnover basis.

3. Permits the sales supervisor (no longer a salesman) to devote his time in assisting the retailer in improving the store layout and appearance, and to work with the retailer in developing sales promotions and in general cooperate in all phases of retail store operations.

4. Gives the retailers valuable information on competitive retail prices. Competition of food retailing must be met by voluntary groups, and the retailer is assisted in this function by the wholesaler printing suggested competitive resale prices in his order form. The wholesaler can gather and communicate this price information more economically than the retailer.

Progressive wholesalers give much of the credit for the reduction in margins they have effected to the use of the pre-printed order form. A survey in 1955 showed the average margins among wholesalers using order forms was 26 per cent lower than among wholesalers using salesmen, and pre-printed order forms were used for 86 per cent of total purchases by all wholesalers for 1955.

TABLE 36. Types of Wholesale Grocers Using Pre-Printed Order Forms and Percentage Using Them.[a]

Types of Wholesalers	% Using Pre-Printed Order Forms	% Using Salesmen
All Wholesalers	51	49
Voluntary Group Wholesalers	82	18
Retail-Owned Wholesalers	85	15
Average Margins in Sales	5.5	7.5

[a]"The New Look in Grocery Wholesaling," The Progressive Grocer, May, 1956, p. 3.

Financing

The most difficult single problem facing voluntary groups today is securing capital for expansion in order to finance new stores, upgrade existing stores, buy out existing locations, or assist an underfinanced operator.

The faster growth of the chain stores can be attributed in a large measure to the greater financial resources that are available to the corporate chains, and which could not be matched by independents. The competent independent operator if given equal facilities and operating under a progressive voluntary plan can successfully compete with corporate chains and make as much, and often more, net profit than the corporate chain.

However, one of the most important factors--money--has been largely unavailable to independent operators, particularly the small retailers. There are few independent merchants who have the private resources to finance the high costs of building, equipping, and stocking a modern super market. Financing the operation through the sale of stocks or bonds to the public is not usually possible for the independent operator. Bank loans are very difficult to obtain, and are often expensive. How should an independent finance the kind of store he needs to match those of his bigger, better financed competitors?[4]

To sustain the growth of affiliated retailers, the voluntary wholesaler has found it necessary and imperative to supplement his operational ability with financial resources. Voluntary wholesalers are making available their credit facilities to carefully selected retailers who have a future in the food business but who do not have the resources or the long-standing reputations in their own communities necessary to obtain the financial help they need.

In many areas it is impossible for an independent operator, even thought he may have a very satisfactory new worth, to get into a shopping center or a choice location. Many prime locations are financed through large insurance companies, and the independent retailer finds himself in competition with large corporate and local chains for these locations. This situation also prevails with many banking institutions, and they all have certain financial requirements for leasees. They do not want individual signatures on leases, but want

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[4]Russ Byerly, President, Super Valu Stores, The Progressive Grocer, July, 1961, p. 44.

corporations with substantial net worth. It has, therefore, been necessary for wholesalers to assist their retailers in obtaining prime locations by signing primary leases and subleasing to the retailers.

A substantial share of increased sales volume and expansion is contributed by new store building. As a result, a first important step is to assist members in obtaining satisfactory sites. In some instances it is possible for the retailer to obtain private financing on the individual retailer's signature on the lease. However, when the wholesaler is presented with this type opportunity, there is not always time to find a retailer who has the know-how, some money, and is interested in the location. In these instances, it has been necessary for the wholesaler to step in and purchase the land before they had another retailer lined up to take the location. These tracts of land are later sold to retailers, and the wholesaler would then assist in negotiating leases with prospective builders for their retailer members on these new locations, and assist in arranging financing for new construction, fixtures, and inventory.

Some Voluntary wholesalers have made connections with banks and insurance companies that supply the retailer with the necessary funds. In such cases, the wholesaler often guarantees the repayment of part of the loan or the entire amount, and a reserve fund is set up by the wholesaler to cover any losses which might occur. Table 37 gives a list of how voluntary wholesalers aided their retailer in 1956.

TABLE 37. How Voluntary Wholesalers Aided in Financing New Stores in 1956.[a]

Types of Aid	Per Cent
Gave extended credit on opening inventory	60
Took primary lease and sublet to group retailers	60
Held mortgage	19
Guaranteed loan	26
Found site for new store	68

[a]Address by Robert W. Mueller, Editor, The Progressive Grocer, Annual Convention, National-American Wholesale Grocers Association, Chicago, Illinois, March 18, 1957.

A more recent survey showed that during 1959, 86 per cent of the voluntary wholesalers assisted their retailers in obtaining finance. This assistance currently is given in the following important areas:[5]

1. Helping members to secure no down-payment loans on fixtures. Some voluntaries finance fixtures through their own finance company.

2. Helping speed up the loan process when members deal with small business loan institutions or banks. Voluntary wholesalers assist in making a more thorough presentation of the potential of the member to the lending company, including surveys of competition, projections of profit and loss, financial data, and other pertinent information.

3. Supplying a portion of the investment needs of members through its affiliated finance and real estate corporations.

4. Continuing the practices of giving extended credit on the opening inventory, taking the primary lease and subleasing, guaranteeing loan in part or in full, and purchasing site and reselling to member retailer.

[5]Food Business, June, 1961, p. 29.

In order to be competitive within his trading area, the retailer must be able to offer consumers all the facilities that other retailers offer. If additional space is needed to be competitive, he must either build a new or remodel an existing store. Once again, the voluntary groups are responding to the needs of the times, as more and more voluntary wholesalers are solving the financial problem.

Accounting Service

The whole concept of voluntary group operation is based upon the benefits which can be obtained by the wholesalers and retailers working closely together in all phases of their activities. Today, the retailing of food has become more of a science, and it is increasingly evident that the challenge of major competition has greatly accelerated the tempo of independent food retailing.

The voluntary wholesaler has come to realize that he is only as strong as his affiliated retailers, and that his success is dependent upon that of his retailer accounts. Voluntary wholesalers almost without exception have found it necessary to initiate programs to give them accurate information to be used as a guide in assisting and developing present and future members, and the possibility of some affiliated members going into a second, third, or fourth store.[6]

These programs were initiated and developed by the wholesaler through the formation of "accounting services."

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[6]Carl Vernon, "How Can Retail Accounting Help the Wholesaler?", Wholesale Grocer News, September, 1957, p. 31.

Its prime objective is to strengthen the retailers' operations from both a volume and profit point of view, and to encourage the retailer to conserve his profit in a manner which would make it available for further expansion.

The introduction of an accounting service by the wholesaler calls upon the retailer to reveal the most intimate financial and operational details of his business. Through the establishment of retail accounting services, the retailer has relinquished a major part of his traditional freedom, and the wholesaler in turn has assumed a greater responsibility for the welfare of his customer.

Currently, accounting aids and services for retailers are an established part of the success of voluntary groups. A survey by Food Business Magazine shows that for the year 1959, 66 per cent of all voluntary wholesalers made available an accounting service to their members. Under present competitive conditions, the business pulse of a retail establishment has to be checked from month to month, or at a minimum, from quarter to quarter. This is necessary to discover which operating practices and policies and which departments require improvement and correction for better profits.[7]

An effective accounting service provides the wholesaler with the equipment necessary to adjust any given store to a profitable operation. This service, in the hands of a well

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[7]U. S. Department of Agriculture, "How Some Wholesale Grocers Build Better Retailers," Marketing Research Report, No. 12 (May, 1952), p. 23.

qualified wholesaler representative in the capacity of a sales service man, a division manager, or a retail accounting manager, enables the wholesaler to be instrumental in:

1. Creating a closer working relationship between the wholesaler and retailer.
2. Developing stronger retail members.
3. Developing retail members capable of operating additional stores.
4. Reducing credit losses.
5. Showing retail members how to competently interpret figures and advise and assist in retailer problems.
6. Showing retail members how to conserve profits for future expansion.[8]

Voluntary wholesalers and their representatives should have the knowledge and experience to intelligently discuss operating figures with their retail merchants and take whatever corrective measures are necessary. He should have knowledge in the following areas:

1. He should know the proper operating expense for the retailer's store and in the various departments.
2. He should know the gross profit which should be realized in a well operated store, and by departments.

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[8] _Ibid_.

3. He should know the proportion of sales which should be done in each department.

4. He should know the proper turnover the retail store should have on their inventory.[9]

An accounting service should be flexible to be available to all affiliated retailers, regardless of size and volume of sales, and should consist basically of the following:

1. Sales by the day and week by departments, the gross profit, and expenses in each of the departments.

2. Profit and loss statement.

3. Complete balance sheet.

4. Payroll tax service.

5. Sales tax service.

6. Income tax service.

7. Train retailers in the use of the accounting forms.

8. Consolidate the statistical information received from the different stores.

9. Set up figures for standards of performance.

10. Check individual store performances against standards of performance and discuss with retailers.

11. Advise retailers as to their operations, credit and capital needs, surplus and possible expansion.[10]

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[9] Carl Vernon, Treasurer, The Fleming Co., "How Can Retail Help the Wholesaler?," Wholesale Grocer News, September, 1957, p. 31.

[10] Ibid., p. 32.

Super Valu Stores, Inc., one of the largest voluntary wholesalers in the United States, adopted the following retail accounting procedure when a retailer joints their voluntary group or starts a new business:

The Super Valu auditor sets up the original balance sheet, carefully listing all the assets including each piece of equipment, inventory of merchandise, etc., and the liabilities and thereby establishes the starting point on which to base figures for current operation. A simple reporting system is established and fully explained to a member of the store's personnel. The reports are prepared daily and recapped for the week. This information is forwarded to the central department where all the book work is done.

At inventory time, the material prepared by the store personnel is sent to the central department for figuring and at this time a complete balance sheet and operating statement is prepared based on actual assets. It is recommended that inventories be taken at least once every three months.

These operating statements enable the field representatives to make a complete analysis of the store's operation. He checks gross profits and expense ratios by departments. He will devote special attention to any department in the store that does not show proper profits or shows too high a cost of operation.

Between inventories, estimated operating figures are supplied each four weeks. From the daily reports the actual sales are computed, gross profit is estimated on the historical profit shown by the store, and the detailed expense accounts are computed, producing a theoretical profit and loss statement. These interim statements are corrected quoarterly or at any time a physical inventory is taken.[11]

Periodically, comparative operating figures are given to each subscriber showing how his figures compare with the figures of stores of similar size operating under comparable conditions. All of the confidential material in connection with the retail accounting service is identified by store number only.[12]

H. O. Wooten Grocer Company of Abilene, Texas, is a voluntary wholesaler and sponsors a Red and White voluntary group. This voluntary wholesaler offers a complete accounting service to their retailer members. The *Voluntary and Cooperative Groups Magazine* of March, 1959 published an article on their accounting service, describing it fully and with accompanying forms. Seven forms are reproduced in the figures that follow.

The wholesaler's role in conducting an accounting service is particularly fruitful. It opens up the opportunity for an evaluation of the retailer's operating practices by

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[11]"How to Step Forward Through Your Affiliation with Super Valu Stores, Inc.," (company publication, Super Valu Stores, Minneapolis, Minnesota), p. 21.

[12]*Ibid.*

Fig. 3. Accounting Service Agreement Between H. O. Wooten Grocer Co., Abilene, Texas, and Affiliated Retailer.

Accounting Service Agreement

THIS AGREEMENT entered into between RETAIL ACCOUNTING DIVISION, H. O. WOOTEN GROCER COMPANY, and undersigned Independent Retailer, in consideration of $1.00 and other good and valuable consideration, WITNESSETH:

WHEREAS the Retailer desires to avail himself of Retail Accounting Service, it is mutually agreed as follows:

RETAIL ACCOUNTING SERVICE WILL:

1. Provide the Retailer with a Balance Sheet and Statement of Income and Expenses upon delivery to Retail Accounting Division of proper inventory and cut-off. Quarterly statement and inventories in the regular fee. Any additional statement prepared shall be done so upon request by the Retailer and at additional cost.
2. Prepare federal and state quarterly payroll tax returns.
3. Reconcile bank account each month.
4. Figure all quarterly inventories when properly submitted.
5. Maintain a fixture and equipment inventory and necessary depreciation schedules.
6. Prepare all tax reports, with the exception of Federal Income Tax reports.
7. Provide special and/or extra accounting service when requested or required by the Retailer, on a cost basis.

THE RETAILER WILL:

1. Maintain his accounting records in accordance with the method and forms as supplied by or approved by the Retail Accounting Division.
2. Prepare his forms and reports properly and send them to Retail Accounting Division promptly each and every week.
3. At time of each inventory taken, send to Retail Accounting Division properly prepared cut-off report, bank statement through cut-off, and any reports that may be due at that time.
4. Where special and/or extra accounting service is required, such service shall be paid for on a cost basis in excess of the normal period accounting fee.
5. Not withhold any information, figures or details which should be included in current statement being prepared.
6. Pay a fee for Retail Accounting Service as outlined in fee schedule attached. The fee is based on total store sales volume and is billed every four weeks.
7. Understand that we assume no responsibility for the accuracy of the figures furnished to us by the Retailer.

This agreement shall continue in full force and effect until cancelled by either party upon thirty days' notice in writing, without further liability to either party.

Dated at .... this .... day of .... 19 . .

RETAIL ACCOUNTING DIVISION

Retailer: .... By ....

Fig. 4. Fees Charged by H. O. Wooten Grocer Co., Abilene, Texas, August 1, 1957.

The accounting service is considered by practically all wholesalers as a special service, requiring a special accounting service agreement which specifies the services to be performed by the wholesaler and retailer, and the fees to be charged to the retailer.

We have found that the work involved on the individual account varies according to the volume of business. Consequently, our charges are based on the volume of sales. In the case of multiple store operations, each location is considered an individual account.

The fees per period of 1 week are as follows:

	Weekly Rates		Weekly Rates
Sales up to $ 5,000	—$10.00	$15,001 to $25.000	—$15.00
$5,001 to $15,000	—$12.50	$25,001 up	—$17.50

The member will be billed at cost for the Journal, Ledger, Daily Store Report Binders and Pads, Payroll Book and other supplies used in keeping his records.

Special accounting service, when requested, requiring accountants' service at the store will be supplied on a cost basis to be agreed upon at that time.

The regular fee will cover preparation of all payroll tax reports presently required, and the balancing of store bank account each month. We will have the Federal Tax Reports prepared if desired. The extra fee for preparing the Income Tax Reports will vary according to the amount of work involved.

Interim meat or produce inventories — $2.50 each.

Full store inventories and reports other than regular quarterly reports will be charged on a cost basis. Our fees are established at what is considered a minimum figure in order to serve our customers. The fees may be raised or lowered depending on cost involved.

Fig. 5. Sample of Information Required for Original Entry, by H. O. Wooten Grocer Co., Abilene, Texas.

1. **INVENTORY**

   A complete and accurate grocery, produce and meat inventory must be taken in accordance with the instructions furnished you. This is of utmost importance. A Wooten fieldman will assist you in taking your initial inventory.

2. **LIST OF UNPAID BILLS**

   It is important that a complete and accurate list of unpaid merchandise and expense bills be made in accordance with the instructions furnished you.

3. **LIST OF ASSETS AND LIABILITIES**

   We need from the present books a trial balance of assets and liabilities. The assets must equal the liabilities. EXAMPLE:

Assets

Cash in Bank	$1,156.28
Change Fund	200.00
Customer Accounts	3,642.25
Store Fixtures (Cost)	
(Bought 4-12-48)	1,700.00
Less: Allowance for Depreciation	—1,000.00
1950 Ford Panel Truck (Cost)	
(Bought 6-15-50)	1,968.00
Less: Allowance for Depreciation	—1,100.00
Prepaid Insurance (Expires 12-1-57)	50.00
	$6,716.53

Liabilities

Accounts Payable	$1,347.50
Brown Insurance Agency	27.75
Due on Panel Truck	750.00
Note Payable (Due within 1 year)	2,000.00
Notes Payable (Due after 1 year)	1,500.00
Profits Retained in the Business	1,091.28
	$6,716.53

Information in regard to how depreciation is taken and method of paying any notes should be furnished us.

4. **BANK ACCOUNT**

   Your bank account should be balanced and the correct balance furnished us as of the starting date. If we are to reconcile your bank account, please mail it in promptly at the end of each month.

5. **PAYROLL**

   Please furnish us with a list, starting at January 1st, to the beginning of the new accounting service, showing:

Name	Home Address	Gross Salary Paid	S. S. Taxes Deducted	W. H. Taxes Deducted

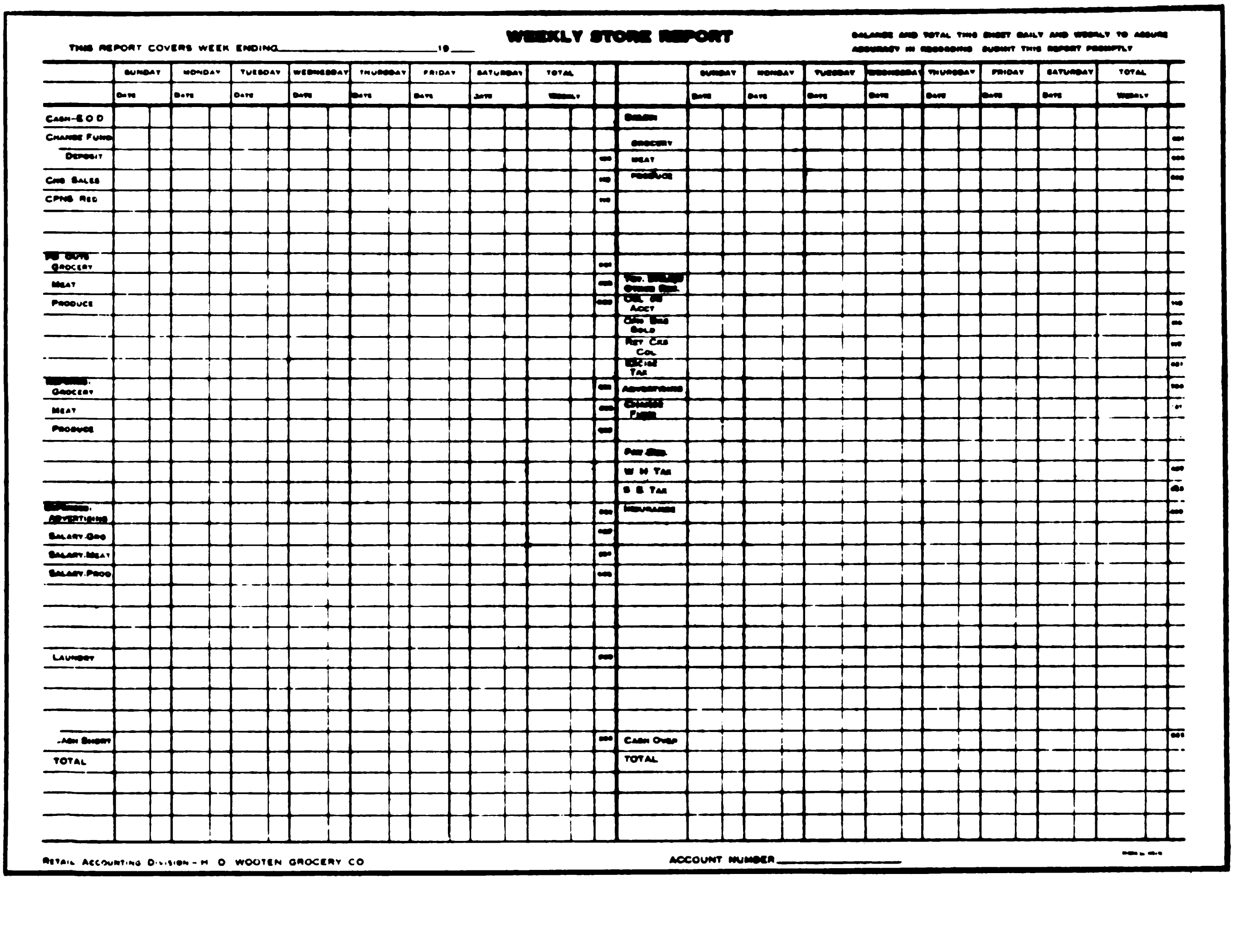
We also need to receive a listing showing the amount of S. S. and W. H. taxes deducted and paid to the Government from January 1st to date, by payment date, showing amount paid.

6. **PAYROLL REPORTS**

   We cannot prepare payroll reports for the time prior to your starting date. Please file these for the period prior to the starting date as in the past.

   In the future, please send us any blank tax forms received immediately, except income tax reports, unless we are to have them prepared.

Fig. 6. Weekly Store Report for Retailers by H. O. Wooten Grocer Co., Abilene, Texas.



THIS REPORT COVERS WEEK ENDING ______________ 19__

WEEKLY STORE REPORT

SUNDAY MONDAY TUESDAY WEDNESDAY THURSDAY FRIDAY SATURDAY TOTAL

CHANGE FUND

DEPOSIT

GROCERY

MEAT

PRODUCE

ADVERTISING

LAUNDRY

CASH OVER

TOTAL

RETAIL ACCOUNTING DIVISION - H O WOOTEN GROCERY CO

ACCOUNT NUMBER ______________

Fig. 7. Check Register Forms for Retailers by H. O. Wooten Grocer Co., Abilene, Texas.

CHECK REGISTER

WEEK ENDING________________19____

IMPORTANT
BALANCE AND TOTAL THIS SHEET DAILY AND WEEKLY TO ASSURE ACCURACY IN RECORDING. SUBMIT THIS REPORT PROMPTLY.

CHECK ISSUED					DEDUCTED FROM WAGES			MERCHANDISE PURCHASED				WAGES				MISCELLANEOUS	
DATE	PAYABLE TO	NO.	AMOUNT	√	OTHER	S S	W H	GROCERY	MEAT	PRODUCE		GROCERY	MEAT	PRODUCE		AMOUNT	EXPLANATION
	TOTALS																

RETAIL ACCOUNTING DIVISION—H O WOOTEN GROCERY CO

ACCOUNT NUMBER________________

Fig. 8. Form for Bills Unpaid--Quarterly, Used by H. O. Wooten Grocer Co., Abilene, Texas.

BILLS UNPAID — QUARTERLY

ACCOUNT NO. .... **DATE**..............19.....

List all unpaid bills or liabilities as of above date for which merchandise has been received and was included in the inventory. Any bills or liabilities for expense prior to inventory which have not been paid should be listed in the lower section. Any miscellaneous accounts payable, such as fixtures, delivery equipment, etc., should be listed at the bottom of the expense section.

MERCHANDISE

Creditor's Name	Groceries	Meat	Produce
TOTAL			

EXPENSE

Creditor's Name	Explanation	Amount
	TOTAL	

Fig. 9. Form for Returning Inventory to Retailer by H. O. Wooten Grocer Co., Abilene, Texas.

H. O. WOOTEN GROCER COMPANY
RETAIL ACCOUNTING DIVISION
ABILENE, TEXAS

Dear Sir:

We are returning your inventory taken on ....
19 .... . The inventory has been figured and checked with the following results:

Groceries: (Retail) ....
Less: ....% ....
Total Groceries
Meats: (Cost) ....
Meats: (Retail) ....
Less: ....% ....
Produce: (Cost) ....
Produce: (Retail) ....
Less: ....% ....
Total Inventory ....

If we do not hear from you within three days, we will assume the inventory is correct and use these figures in the closing of your books.

Yours very truly,

H. O. WOOTEN GROCER COMPANY

....

Retail Accountant

Fig. 10. Actual Profit and Loss Statement Prepared by the Groce-Wearden Retail Accounting Department for One of Its Rainbow Super Markets.

PROFIT and LOSS STATEMENT From Jan. 1, 1960 To Dec. 31, 1960 — Oct. 1, 1960 Dec. 31, 1960 — Account No. -49-

SALES	Groceries	519,491	09	66.3 %	135,908	87	66.1%
	Meats	194,319	45	24.8	51,603	86	25.1
	Produce	69,735	61	8.9	18,098	50	8.8
	Total Sales	783,546	15	100%	205,611	23	100%
GROSS PROFITS							
	Groceries	82,095	39	15.8 %	21,337	69	15.7%
	Meats	48,191	22	23.62	12,390	08	24.01
	Produce	21,604	09	30.98	5,632	10	31.12
	Total Gross Profit	151,890	70	19.38	39,359	87	19.14
EXPENSES							
	Advertising	10,577	87	1.35	2,652	38	1.29
	Donations	150	00		25	00	
	Delivery Expense	605	10		152	20	
	Depreciation Expense	9,480	91	1.21	2,370	23	1.15
	Dues, Subs & License	180	00		52	50	
	Freight						
	Fuel						
	Insurance Expense	2,074	44	.26	583	92	.28
	Interest Expense	3,936	34	.50	998	96	.48
	Lights, Water & Gas	6,816	85	.87	1,704	21	.82
	Rent	9,600	00	1.22	2,400	00	1.16
	Repairs & Paint—Equip.	909	86		462	47	
	Salaries—Grocery Dept.	35,886	41	4.58	9,418	08	4.58
	Salaries—Market Dept.	8,320	50	1.06	2,202	46	1.07
	Salaries—Produce Dept.	3,900	00	.50	975	00	.47
	Proprietor or Manager						
	Store Accounting	980	00	.12	205	00	.10
	Store Install & Remodel						
	Store Supplies	4,231	14	.54	1,089	73	.53
	Sundry Expense	241	90		62	00	
	Taxes, Social Security	1,252	19		307	01	
	Taxes, Others	796	48		405	93	
	Telephone	596	15		162	48	
	Miscellaneous Labor	115	50		21	50	
	Laundry & Linen	179	90		43	23	
	Trading Stamps	18,000	00	2.29	4,800	00	2.33
	Market Supplies & Sundries	1,586	06		399	61	
	Total Expenses	120,417	60	15.36	31,493	90	15.31
	Operating Profit	31,473	10	4.02	7,865	97	3.83
OTHER INCOME AND EXPENSE							
	Personal Withdrawals	7,800	00	.99	1,950	00	.95
	Rebates & Allowances	7,208	62	.92	1,846	92	.89
	Total Other Income & Expense	(591	38)	(.07)	(103	08)	(.06)
	Net Profit	30,881	72	3.95	7,762	89	3.77

comparing them with his past operations and with those of other successful operators. The information obtained will permit the wholesaler to pinpoint the areas where the most progress has been made. It will also point out the less progressive stores with the object of building them into prosperous operations.

The information obtained through an accounting service is of inestimable value to the supervisors and field men. They are able to get much closer to their retailers and guide them. The supervisor knows the potential of his customers and how the retailer manages his business.

By analyzing weekly reports received from his retailers, the wholesaler can ascertain the amount of outside purchasing being made by the retailer. He can further determine whether these outside purchases were a necessity or they were made because of the weakness inherent in most of us to give in when persuaded to make a purchase.

Many wholesalers are involved in financing their retailers, either through real estate mortgages, fixture mortgages, or inventory financing, and realize the importance of knowing the financial standing and operational ability of the merchant to whom they are extending financial assistance.

The successful establishment and functioning of accounting services requires the mutual understanding and cooperation that has developed between wholesalers and retailers through the voluntary group movement. Four decades have passed since the independent wholesalers and retailers joined together to combat the competition of the chain stores of the 1920's. This movement has culminated in the present strong and successful voluntary group operation.

Merchandising, Advertising, and Promotions

During the first 30 or 40 years of the Twentieth Century wholesalers purchased a year's quantity or a season's supply of a great majority of their inventory. They stored these large quantities in their warhouses for long periods. The stock usually appreciated in value prior to the next season's merchandise becoming available and would be sold at the highest replacement margins.

Changes and developments in mass distribution have altered the nature of the wholesaler's functions. It has become increasingly difficult for the grocery wholesaler to earn a profit merely by purchasing and storing large quantities of goods for long periods and selling in small lots and high margins. Wholesalers have adapted themselves to changes in distribution and have concerned themselves more and more with the merchandising of food through the retail channel of distribution to the consumer. Mass merchandising created the necessity on the part of the wholesaler of moving larger volumes of goods off the retailer's shelves and has led him into the retail field. His efforts to improve the retailer's competitive position and help him secure a satisfactory dollar gross margin has brought him to the necessary functions of mass merchandising.

The functioning of the merchandising department of a voluntary group includes the selection and purchasing of all categories of products distributed by the company and the advertising and promotion to move this merchandise from the retail outlets.

The merchandise department performs the additional service of keeping the retailer informed and abreast of conditions. The retailer wants to know about product markets in general, he wants to know what prices his principal competitors are charging, he wants suggested retail prices, and information about scheduled promotions. Practically all voluntary wholesalers provide this information regularly to their retailer customers. They operate under a "sales and service plan agreement," under which plan the cost of merchandising and supervision is included in a single weekly minimum fee to the retailer.

TABLE 38. Merchandising Services Rendered by Voluntaries in 1959.[a]

Services	Per Cent
Merchandising bulletin	100
Advertising programs	99
Store level merchandising aids	95

[a]Food Business, June, 1961, p. 29.

The necessity for the independent retailer to meet chain competition brought him into buying groups to obtain lower costs and price concessions. Later, the independent merchant found that buying of itself was not enough, since the merchandise must be sold. Sales promotion plus advertising, gradually forced the use of a single group name for all retailers in a voluntary group.

A complete advertising program is essential today to sell the voluntary association, the retail stores and it products to the consuming public. The high cost of advertising makes it prohibitive for most retailers to individually spend the amount necessary to do a productive job. Voluntaries today can buy as much space and advertising time as competition demands, and prorate the cost among several hundred stores on a percentage basis that will be in line with industry averages. Full pages, double pages, and even sections of eight to ten pages have been bought to promote sales. Handbills, direct mail, radio, television, and store posters are used to augment newspaper advertising.

All progressive voluntary wholesalers provide a complete advertising program. Experienced people plan, create and execute merchandising, advertising and promotional programs that are equal, and often superior, to those maintained by many corporate chain organizations. A complete advertising program will include the following services:

1. Weekly advertising programs for newspapers, fliers, etc., including composing and designing.

2. Weekly window poster service.

3. Special store advertising and display material for seasonal and major sales events.

4. Contracts for advertising with newspapers, printers, radio and television stations for affiliated members, and securing the lowest rates and best spots for them.

5. Composing and designing of special sale fliers, newspaper advertisements, window posters, and inside store banners for opening sales, anniversary sales, or any special event.

6. Preparing and distributing news releases to the local newspapers and radio stations for special occasions, thereby giving the retailer an important "plus" in the promotion of his store.

7. Distributing manufacturers' point of sale material.

Accurate records of retailers' purchases are kept by the voluntary wholesaler on a substantial number of manufacturer's allowances, rebates, and advertising contracts which accrue during the year. Checks covering these allowances are presented periodically to each affiliated retailer with an itemized list based upon each retailer's purchases. Included in these refunds are rebates which some manufacturers will not permit in the order form and also the "swell allowance" offered by all canned goods suppliers. Swell allowances range from one-quarter to one-half of one per cent and are allowances given by manufacturers and packers on customers purchases in lieu of returning, within a specified period, unsalable goods caused by imperfect packing.

Where proof of advertising performance is required in the contract, retailers are asked to submit the necessary tear-sheets or other required proof of performance to receive the advertising rebates. A very substantial amount of money is distributed by voluntary wholesalers each year through rebate checks which in most cases would not have been obtained by an unaffiliated independent retailer.

Effective merchandising and promotional programs, supported by productive advertising, have made a major contribution to the progress and expansion of the voluntary groups. They have established the independent retailer as an aggressive and competitive merchant in the mind of the consumer.

Store Engineering

The evolution of voluntary groups is closely tied in with store engineering. The rise of the chain stores in the 1920's created the need for independent merchants to duplicate chain store methods. Emphasis was placed on the two most important problems; volume buying to obtain low prices, and the physical appearance and layout of the stores. As early as the 1920's, voluntary wholesalers were urging group retailers to concentrate purchases through their voluntary wholesaler and to remodel their stores under the direction of the wholesaler's engineers.

The widespread acceptance of the chain store by the consumer motivated aggressive independent merchants to imitate the physical uniformity of the chains. Obsolete fixtures of that era were replaced, layouts of the chains were duplicated, fronts were painted a group color, and signs with the group name were displayed by each retailer. In this manner, voluntary groups copied the physical appearance of chain stores.

The advent of the super market and its constant modernization, created a need for expert assistant in the field of store engineering. While store engineering had existed to some degree since 1920 in the wholesale grocery field, the duties were performed to a limited degree.

Store engineering within group operations has been developed to an extremely high point. Voluntary wholesalers are fully equipped to render complete architectural service in modernization or new construction. Also, to furnish all store fixtures, to supervise installation up to and including the day of "Gala Grand Opening."

Store modernization programs within a group are usually launched with a store engineering clinic. This has a strong influence in making retailers conscious of outmoded store fronts and interior layouts. It is a method of conveying to the retailer the importance of converting their stores into gleaming, modern super markets. Voluntary wholesalers are continually concentrating on encouraging their retailers to be competitive in their physical appearance. As a result of these efforts, many group retailers have attained super market status through a gradual advancement by remodeling from a small store to a superette, and then to a super market.

Based upon Table 39, all voluntary wholesalers, offer engineering services to their group retailers, and are manned

TABLE 39. Engineering Services Rendered by Voluntary Wholesalers in 1959.[a]

Services	Per Cent
Store planning and development	100
Equipment procurement	85

[a]Food Business, June, 1961, p. 29.

by thoroughly trained personnel experienced in all phases of his department. They provide assistance in all areas of store engineering, including the following:

1. Assist with finding locations.
2. Consult with architects and contractors as to the construction and specifications.
3. Complete store layouts with necessary blueprints which include fixture and merchandise plans, electrical plans, plumbing plans, air conditioning and refrigeration plans.
4. Fixture estimates for new as well as remodeled stores.
5. Assist in obtaining building and remodeling costs.

The expense of maintaining an engineering service for group members is covered by some wholesalers' "supervision and merchandising fee." Some wholesalers have attempted to offset the expenses accrued to them by the increased volume from the customer; but more often the wholesaler charges for engineering services on a flat or graduated basis on the sum involved.

Voluntary wholesalers recognize that equipment procurement is an essential service to their retailers, and have been responsible for substantial savings for their merchants. Among the types of equipment are refrigerated cases, checkouts, shelving, and shopping carts.

Store engineering, through new construction and remodeling, helps to increase retail sales, which, in turn, increases the wholesaler's volume. The service can be performed more effectively and economically by the wholesaler than by a private firm, as the wholesaler has a better knowledge of the specific food retailer's needs and potentialities. It also gives the wholesaler an opportunity to gain the loyalty and accelerate the group integration of the retailer who is receiving the assistance and benefits in modernizing or relocating his store.

For the year 1960, the chains built about 15 per cent more new stores than the independents. There has been a steady increase in the number of independent stores that have remodeled and in the per store remodeling expenditures.

TABLE 40. New Stores Built and Remodeled in 1960.[a]

	Independent	Chains
New Stores Built in 1960		
Super markets	800	1400
Superettes, Bantams	600	200
Total	1400	1600
Ratio of New Super Markets to Existing Super Markets in 1960		
Chains . . . . 1 new to 11 existing super markets		
Independents . . . . 1 new to 19 existing super markets		
Independent Store Remodeling 1960		
54% of stores remodeled--$171,000,000 estimated investment for remodeling		

[a]"The New Distributor and the New Independent, Their Progress and Opportunity," Progressive Grocer, March 14, 1961.

Most modern voluntary wholesalers offer their retailers a store engineering service which includes every step from the discussion of the basic situation, to the arrangement of the stock on the shelves after the construction work has been completed, and beyond the "grand opening" into maintenance guidance. This type and quality of service has been a vital contribution to the ability of the group retailer to successfully operate as a modern super market retailer.

Supervisory Personnel--The Field Man

The integration of wholesaler-retailer functions in voluntary groups and the proper and effective implementation thereof has been effected by the use of supervisors or field men. The job of the field man is to foster cooperative relations between the affiliated retailers in his territory and his company, and to assist the member stores to operate efficiently and to merchandise effectively and profitably. To accomplish these objectives the field man performs the following duties:

1. Relations with Retailers.

    a. Develop good working relations with retailers and foster their loyalty and confidence in the company.

    b. Assist retailers in the development of improved merchandise methods so as to improve volume, profits and store appearance.

    c. Offer constructive criticism to retailers in order to initiate more efficient store operation and to assist them in developing sound store operating practices.

d. Assist retailers in locating competent help and in training store personnel.

e. Assist members in analyzing operating statements so that corrective action may be taken.

f. Assist retailers in methods of setting up displays and allocating space in the store.

2. Implementing Merchandising Program.

   a. Insure that retailers receive display materials to support merchandising program.

   b. Assist retailers in special and regular sales, such as anniversaries, dollar days, bonus days, etc.

   c. Check retail prices to see if retailers are maintaining advertised prices.

   d. Develop group advertising and merchandising promotions on a consistent basis.

3. Assist Company by:

   a. Reporting prospective new members.

   b. Locating potential new store locations.

   c. Reporting the need for store engineering services.

4. Keeping Company Informed of Local Conditions and Problems.

   a. Report competitors' activities on locations, promotions, and pricing.

   b. Report stores needing specialized assistance.

   c. Visit competitive stores to learn new techniques that can be applied in affiliated stores.

   d. Prepare reports required by company or requested by sales manager.

5. Working Relationships with Other Departments of the Company.

   a. Work with both produce and meat supervisors to improve store operations in these departments as directed by the company.

b. Assist the store engineer in providing adequate services to the affiliated stores.[13]

The field man has a responsibility today that justifies describing him as a consultant for the retailer and a coordinator of the wholesale-retail functions.

Store Location and Development

The selection and evaluation of store locations is a fundamental requirement for dynamic growth and success. The independent wholesaler and retailer has graduated from the "Ma and Pa Store Age" to the Superette and Super Market, and store location and development is an essential service needed by the independent retailer.

To assist their present retailer members, and to enlarge retailer membership, voluntary wholesalers have become involved in retail store development. This has called for a search and site location analysis for specific sites for its members and prospective members. Although a limited number of voluntary wholesalers offer complete store location and development services to its retailers, 61 per cent found sites for new stores for its retailers, according to a recent survey.[14]

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[13] U. S. Department of Agriculture, "The Use of Fieldmen by Wholesale Food Distributors and Affiliated Retailers," Marketing Research Report No. 266, September, 1958.

[14] "Facts in Grocery Distribution," The Progressive Grocer, 1959.

Personnel Training and Development

Training programs assisted in making the retail merchant a more intelligent operator, and hence a more profitable customer. Wholesalers found that when they embarked on training programs they tied their retailers more closely to them. This cooperation resulted in mutual benefits and was another contribution to the strengthening and well-being of voluntary groups.

In the early days of the voluntary groups, however, wholesalers encountered many difficulties in establishing a department to assit their retailers in personnel and training problems. The voluntary wholesaler, by the nature and organization of his group, cannot select the personnel of the retailer's employees, and must assit by educating the retailer. During the early period, many of the retailers were older men who may have been in business for many years and were generally convinced that they knew everything about their business. Constant education on the part of the wholesalers emphasized the importance of training retailers and their employees on new and better ways to operate their business through personnel training and development. This was accomplished through group meetings, bulletins, and visits by supervisors.

The first successful training method used by the wholesaler was that of having group meetings at some central location where retailers could attend in a body. It was found that a small gathering was more effective since it afforded each retailer a better opportunity to participate in the discussions.

The programs provide techniques for personnel selection and cover some of the following:

1. Recruiting
2. Interview techniques
3. Checkout training
4. Price marking
5. Cash register operation
6. Carryouts

Employee courtesy is constantly stressed, as it is a major key to successful retail operations. Carefully selected employees create customer goodwill and profitable operations.

Techniques for recruiting, indoctrination, interviewing, hiring, and general personnel administration are now supplied by a majority of the voluntary wholesalers through their personnel department, and are able to provide counsel to retailers on problems which have been historically handled loosely by many retail operators. Many retailers now realize the importance of selecting qualified personnel. Supervisors employed by voluntary wholesalers have received special training and are qualified to counsel and assist group retailers in personnel matters. They have been able to show the retailer that poor selection of personnel will increase his costs in several ways; a large turn-over of employees increases costs due to inefficiency while learning and loss of customer good will because of constant turn-over.

The personnel department of the wholesaler has been able to assit and encourage retailers, and as a result have increased their labor productivity, store good will, better store performance, and improved personnel relationships. This guidance has encouraged retailers with ability and capital to expand to large stores, or additional stores, or improved locations. 61 per cent of the voluntary wholesalers for the year 1959 offered a formal training program to the groups, and 81 per cent made available to them store level management aids.[15]

Perishables

Many voluntary wholesalers have established complete one-stop warehouses that supply their retailer customers with just about total needs, including the complete line of major perishables. Some voluntaries have been obliged to gradually add perishables to their lines, due to the high cost of equipment and added warehouse space required for the new lines. The goal of all aggressive voluntary wholesalers is to supply their affiliated retailers with as close to 100 per cent of the products that they use.

The following table shows the percentage increase in the number of voluntary wholesalers handling perishable lines broken down into the various lines from 1939 to 1959.

Wholesaler sponsored perishable programs now represent a substantial portion of the voluntary wholesaler's volume.

[15]"Cooperatives and Voluntaries--Sales Power Personified," Food Business Staff Report, June, 1961, p. 29.

TABLE 41. Lines Handled by Voluntary Wholesalers 1939 to 1959.[a]

Lines	1939	1949	1954	1959
Fresh Meats	3%	9%	18%	39%
Fresh Produce	26	40	43	43
Dairy Products	15	21	34	50
Fresh Baked Goods	0	0	1	10
Frozen Foods	10	21	50	67
Smoked Meats	10	17	26	40

[a]"Cooperatives and Voluntaries--Sales Power Personified," Food Business Staff Report, June, 1961, p. 29.

A thorough knowledge of the products and their operation are essential for efficient results and profits. A combination of the following five elements usually will insure success:[16]

1. Trained and competent specialists in all phases of merchandising and display. 69 per cent of all voluntary wholesalers in 1959 provided specialist supervision for perishables.

2. Experienced buying service.

3. Effective merchandising programs.

4. On the job training classes, covering quality control, pricing, display, packaging, etc.

5. Constant contact between supervisors and department heads.

Successful perishable operations are profitable for both the wholesaler and retailer. They create greater sales volume and profits for both. Headquarters operation permits the retailer to do business with fewer suppliers, thus saving time, and further results in larger retailer's orders. This

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[16]*Ibid*.

is an important consideration, since order size is directly related to both the cost of the retailer's merchandise and the profitableness of the account to his wholesaler supplier. Effective perishable programs is one more example of mutual benefits accruing to voluntary groups by practicing the concept of voluntary cooperation between wholesalers and retailers.

The History of Private and National Brands

Food retailing in this country began as a private label business. As recently as the early years of this century food merchants bought most of their goods in bulk. They measured, weighed, and packaged them under their own private label, or did not bother with any label at all. Very little merchandise bore the manufacturer's label.

During the early years of the century a demand developed for reliable merchandise. This reliability began to assume the form of packaged, brand-named products that were welcomed by the consumer and retailer alike. This early period marked the decline of the earliest forms of private brands and the birth of national brands in the food business.

Food retailing during this period was local, friendly, and not too competitive, for each store served its own neighborhood. Under these circumstances, and with a growing number of branded items arriving in the stores, there was little demand or need for private brands.[17]

[17]Robert W. Mueller, Editor, "Where We Stand Today in Private Brand Merchandising," The Progressive Grocer, p. 1.

The arrival of the chain stores in the 1920's brought the development of selling food products for cash at low prices, and the elimination of credit and delivery. They emphasize and accentuate low prices; it was the policy of the chains to sell many national brands at cost or below cost as "loss leaders" and make up their losses through added volume and on their own highly profitable private brands.

To combat this kind of competition, wholesalers and retailers in this era developed buying pools, which resulted in substantial reductions in the delivered cost of merchandise. The beginning of voluntary groups was based upon this idea of buying groups of retailers concentrating their purchases through one wholesaler to obtain quantity discount concessions. The voluntaries where then obliged to establish and develop their own private brands to meet competition. These private brands had to be promoted in order to obtain sufficient volume so they could be sold profitably. Group purchasing and the sponsoring of private brands lead to centralized merchandising and was the basis for the establishment of voluntary groups.

A decade of rapid expansion by the chain stores was followed by a decade of depression in our economy. The nation's chain stores and the newly established super markets were quick to evaluate the needs and mood of the public and moved to cut costs and prices. This period, from 1929 to 1939, was a time of abundance of goods, when food produts were in oversupply and distress quantities were available for private brands at low prices.[18] Price appeal was the key during the depression years and where savings could not be offered in national brands, private brands were developed and promoted to meet the price requirements of the consumer.[19]

The depression decade ended in 1941. Money became plentiful, while merchandise especially foods, became scarce. The situation was now completely reversed and the growth in private brands was halted. The lower priced private brands were no longer good enough for many families. During the 1929 to 1939 decade, which saw a decided growth in private brands due to the depression, these private brands had not developed a brand image of a particular quality or attraction through advertising and promotion, but in the main was merchandised on the basis of economy. The consumer now wanted and could afford the best and the national brand then was generally considered the highest standard of quality, and private label had not as yet attained this prestige. National brands prospered and private brands lost ground during this period because food surpluses that went into private label at low prices during the 1930's were no longer available, and customers indicated they preferred the national brands.[20]

The post-war period, from the years 1946 to 1955, was a period of readjustment from war shortages, and expansion into

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[18]Ibid., p. 1. [19]Ibid.

[20]Ibid., p. 2.

new stores, bigger stores, new lines, and refinements in methods of operation. There was so much to be done in meeting the big, pent-up demands of the consumer, that most retailers found little time or had any inclination to concern themselves with private brands.

But food retailing caught up with its expansion goals and by 1955 and 1956 there ceased to be a shortage of super markets. New super markets that opened after 1956 could no longer expect to draw appreciable trade from smaller stores. They now had to pull business either from increased population or from existing super markets, thus creating the first truly competitive conditions in food retailing since 1939.

Competition brought forth such devices as give-a-ways and trading stamps and to maintain profits many retailers and their wholesaler suppliers began to put a greater effort into merchandising private brands.

This greater effort is seen in an increase in the number of private label items, in greater displays, more facings, and generally preferential treatment of private labels in shelf position, advertising, merchandising, and pricing, with a view to maintaining profits and a competitive position.[21]

The Philosophy of Private and National Brands

Voluntary wholesalers and retailers handle both private and national brands and the degree to which they promote each

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[21] *Ibid.*

is based upon many factors. The type of consumers that make up the trading area, the length of time the wholesaler has been in business within that area, the brand policy that competition follows, and the strength of national brands in an area, all influence the brand policy followed by a particular voluntary group.

The use of private brands by voluntary groups bring important advantages in competitive strategy. Because of "loss leader" merchandising of national brands by chains, all segments of food retailing sell some national brands with deep price cuts. Because of this practice, independent retailers could not depend upon national brand goods only to maintain their profit margins, and compensated for lost margins in the same manner that their competition did, with their own private brands. To be successful, price competition must be met, and, therefore, affiliated retailers have resorted to the merchandising of some nationally branded items as "loss leaders."

By meeting this type of competition, they can combat any impression that the chains sell for less, bring customers inot the store, and recoup lost margins by emphasizing private brands. With competition forcing the trend toward lower gross margins per unit of goods on advertised brands, affiliated groups have increasingly turned toward the private brand goods as a means of obtaining sufficient dollar gross margins. In modern grocery merchandising, both the private and national brands must be stocked by the independent retailer. Just as low profit items must be balanced with products carrying a more generous profit, so must the private and advertised brands be in balance. This proper balance is achieved by maximizing sales and profits in both areas through merchandising, promoting, displaying, and pricing.

Private and National Brands--Advantages of Each

While voluntary groups have generally grown bigger and stronger by promoting national brands, they realize that the competition of chain stores in the latter's private brand creates a type of competition that can best be met by the establishment of the voluntary's own private brand. The competition can involve any of the four following areas:

1. Competitive pricing. Private brands can generally be purchased at considerably lower prices than national brands of the same kind and quality. This allows the retailer to sell his merchandise as low or lower than national brands and still make a satisfactoryprofit. Private brands also permit the retailer to compete against other private brand competitors, rather than be out of line with national brands, or be forced to meet private lable competition with national brands, and shrink profits or loss volume.

2. High quality standards. A great many packers of advertised brands pack private label brands for buying organizations and voluntary groups. These private brands are

processed and merchandised under the same careful supervision as the manufacturers use on their own advertised brands. The sponsors of private brands maintain that by establishing specifications and maintaining quality control, they are able to guarantee the same high consistent quality as the nationally advertised brands are known to possess. National brands have consistently built up a reputation with the consumer for quality merchandise at reasonable prices, and have reaped the benefits of much impulse buying through advertising and promoting.

3. Traffic builders. Some voluntaries and corporate chains emphasize and promote private labels more than others, while others have built a successful volume of sales by emphasizing nationally advertised goods. There are particular products such as coffee,which have developed larger volume of sales on private label as against advertised brands. The aggressive merchandising of carefully selected private brand key items are traffic builders for the entire store. The steady promotion of these items are a strong foundation on which to build store traffic and repeat customers for all the goods in the store.

The merchandising and promoting of national brands, in cooperation with manufacturer's advertising, retail assistance with point of sale material, retail manpower, and many other aids, have been responsible for the continued growth of many voluntary groups. Sponsoring national brand sales and promotions is a well established method of developing store traffic and sales.

4. Developing store and group image. Voluntary chain headquarters of both the syndicated and regional groups, assist their retailers in promoting their private label on a national and regional scale. They follow the technique of the corporate chains by featuring their private label with newspapers, handbills, point-of-sale advertising, store merchandising and promoting, and competitive pricing for profit. The successful emphasis of private label is a major assist in developing a stable and profitable image toward the particular super market and voluntary group. In many instances, the brand name of the top quality private label is taken from the name of the voluntary group, and thus ties in more solidly the image of the private brand with the image of the voluntary group. This method of developing national and regional prestige through the promoting of private label goods, contributes greatly toward neutralizing the lack of familiarity on the part of consumers toward a particular voluntary group or super market, and results in a general strengthening of voluntary groups as a competitive factor in food retailing.

Many voluntary groups and super markets have developed fine store images in the minds of the consumers, by catering to a high degree to their preferences. By tying in nationally advertised products with personal service, the independent merchant is able to build sales and good will.

Private and National Brands--Their Problems

The promotion of a line of controlled brand goods brings with it a series of merchandising and operating problems. One of the important problems is the determination of the relative profitability of private and national brands.

In solving this problem, percentage gross margins alone are not reliable guides. Since it is dollars gross margin out of which expenses must be paid and profits earned, it is the combination of both gross margin rate and sales volume that yields dollars gross profit and determines the earning power of a brand or department.[22]

Furthermore, it is the relationship between the amount of dollar gross margin a brand earns and the amount of dollar expense for which it is responsible, that determines that brand's dollar contribution to net profit. The cost of handling private brands is higher than that of national brands, since private brands require more advertising, sales promotion, and merchandising by the distributor and national brands have these sales aids built into their products. There is a slower turnover in some categories of private brands which will affect its profitability.[23]

The key to decisions relating to private grands and categories is to determine whether the additional dollar expenses incurred in handling these goods would be larger or

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[22]U. S. Department of Commerce, Effective Grocery Wholesaling (Washington, D. C.: Government Printing Office, October, 1941), p. 48.

[23]*Ibid.*

smaller than the additional dollar gross margin that can reasonably be expected.

Private and National Brands--Maximizing Sales and Profits

There is universal acceptance of the power of facings and positions in generating sales for particular products in a super market. There is considerable difference of opinion on how to use these forces to achieve maximum sales and profits for an entire product category. It has been suggested by The Progressive Grocer, as a result of experiments in many stores, that the two keys for obtaining the highest sales and profits are these:

Key No. 1.--Face each item according to unit sales.

Key No. 2.--Give preferred position to biggest dollar profit producers.

The best sellers should be given the preferred position, on the theory that more sales are made when you make it easy for consumers to find what they want. The emphasis on items with the highest percentage margin is unproductive unless accompanied with volume sales to produce favorable dollar profits. Therefore, the most acceptable theory is--give the best location to the items with high unit sales and to the items that earn the greatest number of gross dollars profit.[24] The many operators who have adopted this practice have secured higher volume and profit when each item, whether it

[24]Robert W. Mueller, "Where We Stand Today in Private Brand Merchandising," The Progressive Grocer, p. 6.

is private or national brand, is faced and positioned according to merit.[25]

Addition and Progress of New Lines

The unceasing quest for greater volume and more profit on the part of the super market industry has resulted in the widespread establishment and development of non-food departments. This new competition has placed upon the voluntary wholesaler the need to include in his operation non-food lines handled by major competitors, and to provide capable and efficient merchandising and supervisory talent to successfully compete in these new areas.

Non-foods are big business--for 1960 they accounted for 5.2 per cent of the total sales of an average super market. The seven basic classifications of non-ffods that have generally been introduced into super markets since World War II and the share of each of these classifications are as follows:

TABLE 42. Share of Non-Foods Sales in Super Markets for 1960.[a]

	% of Total Store Sales	Weekly Non-Food Sales	% Margin on Sales	Gross Profit on Sales
All Non-Foods	5.2	$ 943.00	31	$292.00
H. & B. Aids	2.3	408.00	32.5	133.00
Housewares	.92	158.00	33.0	52.00
Magazines	.58	110.00	26.0	28.60
Soft goods	.53	99.00	31.9	32.00
Records	.30	64.00	28.4	18.00
Toys	.35	63.00	33.2	21.00
Stationery	.23	41.00	41.0	16.80

[a]Donald B. Reynolds, "Special Report on Non-Foods," <u>The Progressive Grocer</u>.

[25]Ibid.

Many voluntary wholesalers have established complete one-stop supply depots, with the possible exception of some categories in non-foods and bakery. They have turned their attention to these areas, to secure added volume and profits. By expanding their lines they are able to attain the highest degree of group integration. The expansion of new lines by voluntary wholesalers must be accompanied by effective merchandising, services programs, and proper supervisory personnel.

There has been a steady increase in the number of voluntary wholesalers handling health and beauty aids and non-foods as indicated by Table 43 for the period from 1939 to 1959.

TABLE 43. Percentage of Voluntary Wholesalers Handling Non-Foods for Years 1939, 1949, 1954, and 1959.[a]

Items	1939	1949	1954	1959
Health and Beauty Aids	29	41	60	67
Non-Foods	24	34	46	64

[a]"Cooperatives and Voluntaries--Sales Power Personified," <u>Food Business Staff Report</u>, June, 1961, p. 29.

<u>Conclusion of Part II</u>

The ingredients necessary for the successful integration of wholesaler and retailer relationships have been set forth in the fourth evolutional stage of voluntary groups. The low-cost, efficient wholesaler, the services and functions that voluntaries perform and the high degree of cooperation required of the wholesaler and retailer have contributed in securing for them a substantial and profitable share of the food business.

PART THREE

THE RETAILER AND WHOLESALER

CHAPTER V

OBLIGATIONS OF THE RETAILER AND WHOLESALER

Selection of Profitable Customers

Early in the development of the voluntary groups, almost any merchant was solicited for membership. The emphasis during the 1920 to 1930 decade was on building sales volume by increasing membership. They followed the chain store concept by adding thousands of stores per year, and thus tried to assemble sufficient buying power to enable them to purchase their merchandise at prices competitive with the chains. During this period, the voluntaries approached the manufacturers for volume discounts, advertising allowances, and brokerage and promotional rebates. They impressed the manufacturers and packers with the large number of store outlets in their voluntary group. By this means, independent merchants were able in many instances to purchase good reasonably competitive with the chains.

The revolution in food retailing was brought about by the successful introduction of one-stop, self-service super markets. The leaders of corporate food chains decided that much greater efficienty and resulting savings could be obtained by concentrating on developing big, one-stop food stores, and, therefore, began to close their smaller stores.

Voluntary groups followed the action of the chains and started to become selective in adding new members. The smaller stores were being handled at a loss in the warehouse, office, and delivery operations due to their small volume per store, and the cost was being borne by the larger operators. This situation was unsound, unfair, and an obstacle to larger retailers of the voluntary groups to compete successfully with the chain stores.

Progressive voluntaries set about correcting the inequities by setting minimum amounts for each order, and cutting down or eliminating "papa and mama" stores. These are now being served by cash and carry wholesalers or by smaller, unaffiliated wholesalers. In the 1940's, voluntary wholesalers separated their members into several groups based upon store size, complete lines and self-service, location, and store leadership. They concentrated their efforts and services on the largest volume groups to help them grow and expand.

A recent development and refinement of customer selectivity for maximum efficiency and profits for the voluntary groups operation is the establishment of several new store groups. The qualifications are usually:

1. Large stores with substantial volume.
2. Full and complete lines of perishables.

Some of these new groups are Super Duper Stores sponsored by Red and White Corporation, Foodliner Stores sponsored by Independent Grocers Alliance, and Foodland Stores sponsored by Clover Farm.

TABLE 44. Number of Stores Served by Affiliated Wholesalers from 1939 to 1959.[a]

Type of Wholesaler	1939	1949	1954	1959
Cooperative	855	601	576	635
Voluntary	1200	976	762	566

[a]"Cooperatives and Voluntaries--Sales Power Personified," <u>Food Business Staff Report</u>, June, 1961, p. 29.

The number of stores served by voluntary and cooperative groups has decreased from 2,055 stores in 1939 to 1,201 stores in 1959, a decrease of approximately 40 per cent. The overall twenty year decrease of the cooperatives from 1939 through 1959 was 25.7 per cent. The voluntaries have gone even further in eliminating the non-profitable, small operators who have little inclination or prospect to grow. The decrease for the voluntaries for the same twenty year period was 52.8 per cent.

Concentration of Purchases

When the retailer concentrates his purchases, becomes a steady full-line customer, and conforms to a regular schedule of deliveries and supervising calls, he enables the wholesaler to perform his functions at low costs. The costs of handling and and filling retailers' orders are sharply reduced as the order size increases. The figures in Table 45 are based upon time studies showing that with the size increase in orders the efficiency and economy of handling of orders is sharply increased.

TABLE 45. Number of Cases Handled by an Order Puller Per Hour.[a]

Size of Order	Cases per Man Hour
1-9	57
10-24	98
25-49	148
50-74	170
75-99	188
100-149	217
150-199	226
200 or more	259

[a]National American Wholesale Grocers Association, Management and Controller's Bulletin, Vol. 1, Issue 4 (April, 1958).

One of the major contributions to the effectiveness of the chain store operation has been the advantage they enjoyed of concentration of purchases. It is a principle by which they have made huge savings through volume buying and the elimination of needless administrative costs which result from doing business with a multitude of supply sources.

Purchasing merchandise from several wholesale supply houses weakens the buying power of both the wholesaler and retailer. It has taken time to make the retail grocer understand that when he concentrates his purchases with his group supplier, he puts the wholesaler on even terms with the chains and makes it possible to service and supply his customers economically. It has taken a great amount of personal self-discipline for the retailers to meet this challenge of modern competition in the form of concentration of purchases with one supplier.

Specific advantages of concentration of purchases to the retailer are as follows:

1. The retailer has substantially more time to devote to the operation of his market, controlling expenses, and creating promotions which will build sales.

2. The retailer's bookkeeping job is substantially reduced.

3. Lowers the retailer's buying fee expense and therefore the cost of his merchandise.

4. The retailer can exercise greater control over department heads and their buying functions.

5. Delivery receipt time of merchandise is substantially reduced, since the bulk of incoming goods arrives on one truck. This in turn reduces the expense and time of checking in loads.

6. The retailer has greater control over his inventory. He can buy merchandise as his needs dictate and thereby increase his inventory turnover.

Specific advantages of concentration of purchases to supply depot or wholesaler distributor are as follows:

1. It lessens the problem of determining quantities of merchandise to purchase, since the movement of goods through the warehouse is at a much more even flow.

2. It enables all departments of the wholesaler supplier to do a much more effective job, from the buying of the product to its delivery at the retail store.

3. He is able to purchase in larger quantities which in many cases reduce the laid-in cost, which savings are passed on to the retailer.

The adventages to both the retailer and wholesaler support the soundness of the high concentration of purchases doctrine. The developing of existing accounts is one of the best sources of wholesaler and retailer expansion. Through the store accounting data, the purchasing factor of the retailer is used to pinpoint store problems and problem stores in time to assist the particular store.

The importance of concentration of purchases has become increasingly more significant as the tempo of retail food competition increases, and is one of the most important areas for strengthening wholesaler-retailer groups.

Pricing Plans of Voluntaries

The evolution and progress of voluntary groups in the past four decades can be traced and related to the changes and improvements adopted in their selling and pricing plans. As the voluntaries progressed, the pricing philosophy and price structure have improved.

In the early days, all items were priced as high as the traffic would bear. Practically all independent business was transacted through wholesale grocery salesmen who were paid on a commission basis. It was common practice for their gross margin on sales to average 15 per cent, and more. During the early 1900's, when the independent retailer did not have chain stores as competitors, they competed with each other to a limited extent. With the advent of the chain stores in the 1920's, price cutting and loss leaders were introduced as new weapons of merchandising and operating in the retailing of food.[1]

Independent retailers pressured their wholesalers for lower prices to be competitive. The wholesalers at first were

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[1]Interview with Moses Strock, July 10, 1961.

slow to meet this new type of selling and continued their outmoded methods. The wholesale grocery salesman would offer his retail customers several staple items at cost to be used as loss leaders, but at the same time would increase his regular price on other items purchased by the customer. This situation resulted in the independent retailer being squeezed by chain store competition and losing considerable volume.[2]

During the 1930's and 1940's progressive wholesalers strengthened their organizations and began to develop strong, cohesive voluntary groups. They adopted progressive pricing plans and changed their objectives in pricing from that of making as much gross profit as possible, to the much sounder plan of building up a large volume business with a smaller margin of profit. As a result, they placed their retailer customers in a competitive position with an opportunity to grow from small retailers to super market and multi-store super market operators.

By recognizing this mutuality of interests through intelligent pricing plans, the wholesaler encouraged the retailer to concentrate his purchases with a single voluntary wholesaler, which is one of the major contributions to a successful low-cost warehouse operation. In turn, this made it possible for both wholesaler and retailer to generate a higher volume of sales at the lowest possible cost.

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[2]Ibid.

There are several different pricing plans used by voluntary wholesalers today. A properly designed pricing plan must be based upon a low-cost warehousing operation and should accomplish the following:

1. Offer an incentive to the retailer by maintaining a price structure which permits operators to enjoy economies in pricing and buying fees commensurate with their order size.

2. Give a satisfactory yield to low cost wholesalers.

3. Be competitive in the marketing area.

4. Be open and honese in the pricing plan.

Voluntary group wholesalers have used any of five methods in varying degrees as billing plans: conventional, cost plus, service fee and percentage markup, share the profit, service fee, and share the profit.

Conventional billing is the oldest pricing plan and is used very little today. It is based upon the wholesaler's individual judgment as to what percentage of markup is to be taken on each item. This billing plan gives no incentive to the retailer to concentrate his purchases with any one supplier, and also leaves a doubt as to how ably and efficiently each item is being priced. This plan is highly unsatisfactory in today's high volume stores and is practially obsolete in voluntary group operations.

Cost plus billing actually means selling at a percentage markup. The wholesaler bills his merchandise from cost, or adjusted cost, and adds a given percentage to the invoice total. This type plan also lacks the important element of incentive to the retailer, unless a series of varying percentages are used in billing by volume brackets.

Service fee and percentage markup is used by most of the successful voluntary group wholesalers. Franchise retailers purchase at a cost-fee basis based upon size of order. The service fee charge is usually a constant figure and it is now common practice for the retailer to carry this service fee as an expense, rather than as part of the cost of goods. The service fee is designed to contribute to the wholesaler's expense of buying and merchandising for his retailer group. The percentage markup is usually based upon a sliding scale of percentages, depending upon the size of the order. As the size of the order increases, the cost of handling larger orders is reduced, and, therefore, the percentage scale is reduced for the benefit of the retailer.

Under the "share the profit" plan, the wholesaler shares the margin or spread between the wholesaler's cost and the retailer's suggested selling price, using a series of percentages. The purpose of this plan is to permit the wholesaler to participate in the increased profits accruing to the retailer as a result of good management and direction by the wholesaler.

"Service fee and share the profit" is new and has been used to a limited extent. It has the advantage of "share the profit" participation by the wholesaler, and since it is directly related to quantities purchased, it automatically adjusts for the various volume levels.

The service fee, sliding scale percentage markup, is the pricing plan best designed in building large volume sales with a small margin of profit, and allowing both the voluntary wholesaler and retailer to make a reasonable profit and yet be competitive.

Proper Store Identification

Voluntary group retailers are required to identify themselves with proper signs. These include pylon and parking lot signs and window decals. Nespaper and other advertising media carry the group identification, and this constant exposure contributes to the establishment of the chain group image in the minds of the consumer.

Follow Through on Promotions

Retailers are required to support the merchandising and promotional programs of headquarters. For manufacturers and voluntary groups to work successfully together, the sponsoring wholesaler must have tight enough control over his group members so that packers and manufacturers can satisfactorily use the voluntaries as agents to move their goods into consumption channels. Manufacturers want their lines stocked, displayed, and promoted in retail stores. Manufacturers get this service effectively from corporate chains by means of contact with headquarters. However, it was more difficult for them to deal with some voluntaries, because loose control did not permit group headquarters to make specific guarantees of fulfillment of agreements. Today voluntaries have succeeded in securing closer cooperation and are enjoying sales relations with manufacturers and packers.

Cooperation on Order and Delivery Schedules

Retailers are required to follow a prepared schedule for placing their order, and to prepare for and assist in receiving deliveries of merchandise. Cooperation results in lower warehousing and delivery costs, which in turn lowers the cost of goods to the retailer.

CHAPTER VI

VOLUNTARY RETAILERS' SALES GROWTH AND EXPANSION

In 1947, as America emerged from World War II, the grocery industry was on the threshold of the super market age.[1] The chains were ready with mass buying power, centralized administration, advertising and merchandising services, and available expansion capital. The super markets' low price appeal and mass marketing posed a threat to the existence of the independent merchants, who were doing 63 per cent of the grocery business in 1947. They realized that to survive in this critical period they must band together more closely and firmly and in effect, form "chains" or "groups" of their own. The growth of affiliated retailers since 1947 has been spectacular.

TABLE 46. Share of the Grocery Business Since 1947 for Chains, Unaffiliated Independents, and Voluntary and Cooperative Groups.[a]

Type	1947	1953	1956	1960
Chains	37%	36%	37%	39%
Unaffiliated	34	25	19	13
Voluntaries and cooperatives	29	39	44	48

[a]"Facts in Grocery Distribution," Progressive Grocer, Twenty-eighth Annual Survey, p. F-20.

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[1]Estimated retail food store sales for 1946 $23,665 billion, for 1947 $28,560 billion, and for 1948 $31,430

In 1960, voluntary and cooperative combined store sales totaled \$25.2 billion, or 48 per cent of the nation's \$52.6 billion grocery sales. Today they form the largest single bloc in food retailing, and their phenomenal growth documents that success of the independent group movement.

Within the area of independent grocery sales, affiliated retailers comprise 35 per cent of the total number of stores and they accounted for 79 per cent of all independent sales for 1960. Voluntary groups lead all affiliated retailers with 42.5 per cent of the independent retail food business. Their sales were \$1,840,000,000, or 6 per cent higher than cooperative groups, and double that of the unaffiliated retailers, thus making voluntary groups the biggest bloc in independent retailing.

TABLE 47. How Independent Retail Sales Divide by Voluntary, Cooperative, and Unaffiliated Stores for 1960.[a]

Type	Stores	Per Cent of Independent Stores	Total Sales (billions)	Per Cent of Independent Sales
Voluntary	48,000	20	\$ 13,620	42.5
Cooperative	36,000	15	11,780	36.5
Unaffiliated	156,000	65	6,750	21.0
Total	240,000	100	\$ 32,150	100.0

[a]"Facts in Grocery Distribution," Progressive Grocer, Twenty-eighth Annual Survey, p. F-21.

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billion. "Facts in Grocery Distribution," Progressive Grocer, Twenty-seventh Annual Edition, p. F-19.

Sales gains for 1960 were realized in all segments of food retailing, with the chain store volume up 5.0 per cent and all independent store sales up 4.2 per cent over 1959. However, the greatest sales gains were made by two types of retailers--affiliated independent super markets and small chains with sales from ten to fifty million dollars per year.

Independent super markets showed an average increase of 9.2 per cent over 1959 and local chains under fifty million an 18.3 per cent increase over 1959, as compared with an all chain average of 5.1 per cent increase and an all food sales increase of 4.5 per cent over 1959.

TABLE 48. Sales Gains by Size of Chain for 1960.[a]

Size of Chain	Per Cent Sales Gain
$500,000,000 and over	+ 3.8
$250,000,000 to $500,000,000	+ 3.0
$100,000,000 to $250,000,000	+12.1
$ 50,000,000 to $100,000,000	+12.0
Under $50,000,000	+18.3

[a]"Facts in Grocery Distribution," Progressive Grocer, 1961, p. F-18.

The independent super markets and small local chains with the "local touch" are making the greatest progress in food retailing.

Modern affiliated groups offer facilities comparable to those of corporate chains in terms of all these things:

1. Centralized buying.

2. Modern, efficient warehousing.

3. Low cost distribution.
4. Advertising and merchandising services.
5. Effective operational services.
6. Broad, complete merchandise lines.
7. Full manufacturers' corporation.
8. Professional store planning and locations.
9. Financial assistance.

Each of these point to an equality of service and facilities between voluntary groups, cooperatives, and chains. These facts, plus the incentive of ownership, make today's independent affiliated super market operator retailing's toughest competitor, and has been responsible for the tremendous growth, sales power, and competitive strength of today's voluntary groups.

CHAPTER VII

PUBLIC RELATIONS

Wholesale grocers sponsoring voluntary groups realize they have a definite obligation to themselves and their retailers to be recognized as modern, low priced, high volume merchants and be "favorably thought of" by the poeple in the community and region they serve.

Full-time publicity programs are being maintained by a substantial number of voluntary group organizations to keep the public and the trade aware of their group identity and conscious of their progress. National and local publicity through newspapers, trade and business magazines, radio, and television, is constantly stressing the growth of voluntary groups and the advantages this type of retailer offers his customers. Trade associations such as National American Wholesale Grocers' Association, United States Wholesale Grocers' Association, and The New England Wholesale Food Distributors Association, which is the oldest food association in this country, have assisted in bringing the voluntary group movement to its present high status.

One of the independent merchant's key advantages in competition with chains is his standing in the community. His participation in civic and charitable affairs has helped develop in the people's mind an image of the voluntary group retailer as a modern, competitive, and successful super market merchant.

CHAPTER VIII

OPERATIONAL AND FINANCIAL REPORTS OF VOLUNTARIES AND CORPORATE CHAINS--COMPARISONS AND RATIOS

Voluntary groups in food distribution have attained standards of efficiency that compare favorably with the highest in the industry. Operational figures for 1960 of Independent Grocers' Alliance wholesale and retail operations are presented separately and then combined to compare with operating results of food chains in 1960. Also a statistical summary of Super Valu Stores, Inc., operations for 1960.

I.G.A. SUPPLY DEPOT (WHOLESALER) SPECIMEN BALANCE SHEET
1960

ASSETS:		
Current Assets		
Cash on hand and in banks	$ 231,000.00	
Notes and accounts receivable	444,000.00	
Cash advance on merchandise	8,000.00	
Merchandise inventory (at lower of cost or market)	1,383,000.00	
Total Current Assets		$2,066,000.00
Investments (at cost)*		13,000.00
Fixed Assets		
Warehouse equipment	$ 65,000.00	
Office equipment	41,000.00	
Delivery equipment	182,000.00	
Land and buildings	199,000.00	
Total	$ 487,000.00	
Less reserve for depreciation	229,000.00	
Net fixed assets		258,000.00
Deferred Charges		29,000.00
Total Assets		$2,366,000.00
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current Liabilities		
Accounts payable	$ 611,000.00	
Mortgage payable-cur.port.	5,000.00	
Federal and state income taxes	186,000.00	
Provision for redemption of trading stamps	71,000.00	
Federal withholding & FOAB tax	10,000.00	
Retailers' savings accounts	5,000.00	
Accruals		
Salaries,wages and bonuses	60,000.00	
Other state and local taxes	25,000.00	
Other	3,000.00	
Total Current Liabilities		$ 976,000.00
Long Term Liability-Mtg. on Building		118,000.00
Deferred Income		1,000.00
Stockholders' Equity		
Capital stock-common-no par-stated value $2.00 per share-authorized issued and outstanding 165,000 shares	$ 330,000.00	
Retained Earnings	941,000.00	
Total Stockholders' Equity		$1,271,000.00
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$2,366,000.00

*Current market value $16,500.00

Source: Letter from Carl E. Wolf, Jr., Manager, Market and Operations Research, I.G.A., dated March 27, 1962.

I.G.A. SUPPLY DEPOT (WHOLESALER) SPECIMEN INCOME AND EXPENSE STATEMENT FOR 1960

Sales		$29,187,000.00	100.00%
Less Cost of Sales		28,146,000.00	96.43
Gross income from sales		$ 1,041,000.00	3.57
Cash discount and other operating income		351,000.00	1.20
Total Operating Income		$ 1,392,000.00	4.77%
Operating Expenses:			
Selling expense	$225,000.00		.77%
Warehouse expense	222,000.00		.76
Delivery expense	179,000.00		.61
General and administrative expense	234,000.00		.80
Executive expense	72,000.00		.25
Turnover expense	17,000.00		.06
Building expense	73,000.00		.25
Total Operating Expense		$ 1,022,000.00	3.50%
Net Income Before Provisions for Federal and State Income Taxes		$ 370,000.00	1.27%
Federal and State Income Taxes		182,000.00	.62
Net Income		$ 188,000.00	.65%

Source: Letter from Carl E. Wolf, Jr., Manager, Market and Operations Research, I.G.A., dated March 27, 1962.

I.G.A. FOODLINER (RETAIL STORE) SPECIMEN INCOME AND EXPENSE STATEMENT FOR 1960

Income from Sales		$1,001,500.00	100.00%
Less Cost of Sales		846,500.00	84.53
Gross Profit on Sales		$ 155,000.00	15,47%
Expenses:			
Salaries and wages	$76,700.00		7.67%
Payroll taxes	1,800.00		.18
Sundry taxes (not including income taxes)	3,850.00		.38
Depreciation (building and equipment)	13,900.00		1.39
Repairs	1,050.00		.10
Supplies	1,550.00		.15
Freight charges	3,000.00		.30
Advertising	6,000.00		.60
Utilities	4,100.00		.41
Insurance	5,200.00		.52
Professional fees	225.00		.02
Dues, subscriptions, and donations	500.00		.05
Employee benefits	1,100.00		.11
Sundry	3,200.00		.32
Total Expenses		$ 122,175.00	12.20%
Net Income Before Income Taxes		$ 32,825.00	3.27%

Source: Letter from Carl E. Wolf, Jr., Manager, Market and Operations Research, I.G.A., dated March 27, 1962.

COMBINED I.G.A. WHOLESALE AND RETAIL INCOME AND EXPENSE STATEMENT FOR 1960 BY PERCENTAGES

	Wholesale	Retail	Combined
Gross Income from Sales . . . . 3.57% Cash discounts and other Operating Income 1.20			
Total Operating Income . . .	4.77%	15.47%	20.24%
Less: Operating Expenses. . .	3.50	12.20	15.70
NET INCOME BEFORE TAXES . . .	1.27%	3.27%	4.54%

FINANCIAL SUMMARY OF SUPER VALU STORES, INC. OPERATIONS 1960

Net Sales	$211,468,000
Earnings before income taxes	3,322,300
Per cent to net sales	1.57
Income taxes	1,724,000
Net earnings	1,598,300
Per cent to net sales	.76
Earnings applicable to common stock	1,552,977
Earnings per share of common stock	3.20
Common shares outstanding-end of year	486,052
Number of common shareholders	1,570
Common stockholders' equity	9,536,465
Per cent of return on common stockholders' equity (yearly average)	17.43
Book value per share of common stock	19.62
Dividends paid per common share	1.10
New working capital	9,256,536
Current ratio	2.31:1
Fixed asset expenditures	1,491,785
Depreciation and amortization	1,025,538
Merchandise inventories	9,854,587
Inventory turnover	21

Source: Super Valu Stores, Inc., Annual Report, 1960.

THE SUPER MARKET INSTITUTE'S OPERATING RATIOS FOR 1960 BASED UPON S.M.I. FIGURE EXCHANGE

		Operating Expense Ratio	Gross Profit Ratio	Net Operating Profit Ratio (Before Taxes)
Typical Performance		17.12%	18.64%	1.71%
Middle Range:	(Low)	15.31	17.42	0.66
	(High)	18.70	20.42	2.78

Super Valu Stores, Inc., voluntary wholesalers for 1960 earned income before taxes of 1.57 per cent of net sales, as compared to the above typical performance of 1.71 per cent for corporate chain. Corporate chains' figures also include the profit made in their retail outlets, which required capital investment. Super Valu Stores' figures are limited to profit made on their wholesale operations almost exclusively, and the profits made by affiliated retailers are retained by the latter. It is thus apparent that using Super Valu Stores operation as an example, voluntary groups operations are efficient and profitable and compare favorably with those of the corporate chains.

TABLE 49. Margins, Expenses, and Profits for 53 Food Chains Classified by Sales Volume, 1960 (Net Sales = 100%, except where noted)

Items	Aggregate Figures: Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales Volume Group				Median Figures[a]: Percentages Taken from Arrays of Figures Computed for Each Chain Individually			
	All Reporting Chains	Net Sales Volume (in millions): Less than $20	$20-100	$100 or More	All Reporting Chains	Net Sales Volume (in millions): Less than $20	$20-100	$100 or More
Number of Chains	53	18	16	19	53	18	16	19
Average Sales per Store (in thousands)	$1,223	$1,180	$1,299	$1,217	$1,400	$1,249	$1,407	$1,446
Index of Change (1960/1959)								
Number of Stores per Chain	102.70	115.08	109.88	101.75	108.00	108.33	108.96	105.41
Net Sales per Chain	105.86	116.30	110.15	105.19	108.78	111.66	108.41	105.44
Average Sales per Store	102.84	103.55	101.04	103.01	102.74	103.17	101.59	102.98
Net sales in Identical Stores	100.25*	103.91*	99.27*	100.23*	102.42*	104.14*	101.79*	98.53*
GROSS MARGIN	21.62%	18.98%	20.61%	21.79%	20.33%	18.57%	20.50%	21.19%
Payroll (including supplementary benefits)	10.53%	9.26%	10.26%	10.58%	9.75%	9.04%	9.74%	10.28%
Real Estate	2.05	1.71	1.82	2.08	1.88	1.78	1.81	2.03
Fixture and Equipment Costs	1.48	1.25	1.69	1.46	1.43	1.35	1.45	1.50
Heat, Light, Water, Refrigeration, and Power	0.74	0.76	0.72	0.74	0.71	0.81	0.66	0.71
Supplies	1.07	0.98	0.90	1.10	0.92	1.04	0.85	0.91
Service Purchased	0.25	0.09	0.20	0.26	0.01	0.00	0.01	0.04
Advertising	2.12	2.52	2.16	2.11	2.44	2.70	2.52	2.10
Traveling	0.10	0.11	0.10	0.09	0.09	0.08	0.09	0.10
Insurance (except on real estate)	0.15	0.22	0.21	0.14	0.18	0.27	0.17	0.16
Taxes (except on real estate or income): Payroll	**	**	(0.34*)	**	(0.35*)	(0.32*)	(0.35*)	(0.35*)
Property	**	**	(0.20*)	**	(0.19*)	(0.15*)	(0.21*)	(0.20*)
Other	**	**	(0.05*)	**	(0.02*)	(0.02*)	(0.02*)	(0.04*)
Total	0.62	0.53	0.57	0.63	0.60	0.51	0.61	0.62
Miscellaneous Expense	*0.81*	*0.78*	*0.86*	*0.81*	*0.72*	*0.68*	*0.71*	*0.72*
Total Expense before Interest	*19.92%*	*18.21%*	*19.49%*	*20.00%*	19.16%	18.60%	19.09%	19.42%
Total Interest	*0.32*	*0.29*	*0.35*	*0.32*	0.33	0.21	0.39	0.33
TOTAL EXPENSE including Inter.	*20.24%*	*18.50%*	*19.84%*	*20.32%*	19.47%	18.86%	19.81%	19.91%

Miscellaneous Expense	0.81	0.78	0.86	0.81	0.72	0.68	0.71	0.72
Total Expense before Interest	19.92%	18.21%	19.49%	20.00%	19.16%	18.60%	19.09%	19.42%
Total Interest	0.32	0.29	0.35	0.32	0.33	0.21	0.39	0.33
TOTAL EXPENSE including Inter.	20.24%	18.50%	19.84%	20.32%	19.47%	18.86%	19.81%	19.91%
NET OPERATING GAIN	1.38%	0.48%	0.77%	1.47%	0.91%	0.24%	1.10%	1.46%
Net Profit from Real Estate Operations	0.15%	0.12%	0.20%	0.15%	0.15%	0.09%	0.17%	0.16%
Interest on Selected Assets	0.45	0.39	0.38	0.46	0.40	0.37	0.40	0.43
Cash Discounts Earned	0.57	0.53	0.65	0.56	0.58	0.58	0.67	0.58
Other Revenue, Net	0.19	0.15	0.14	0.20	0.07	0.16	0.02	0.04
Total Net Other Income	1.36%	1.19%	1.37%	1.37%	1.26%	1.25%	1.31%	1.32%
Net Gain before Income taxes:								
Percentage of Net Sales	2.74%	1.67%	2.14%	2.84%	2.24%	1.28%	2.81%	2.76%
Percentage of Adjusted Capital Stock & Surplus	24.87	20.28	20.65	25.37	23.46	16.14	26.29	23.88
Total Taxes on Income	1.42%	0.94%*	1.13%	1.47%	1.23%	0.64%*	1.47%	1.41%
TOTAL NET PROFIT:								
Percentage of Net Sales	1.32%	0.89%*	1.01%	1.37%	1.16%	0.73%*	1.25%	1.35%
Percentage of Adjusted Capital Stock & Surplus	11.96	10.78*	9.76	12.19	11.06	9.23*	12.67	12.28
Number of Stockturns (Based on Beginning & Ending Inventory)	12.21	17.85	13.90	11.95	13.89	16.94	12.72	12.64

[a]All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

**Data not available.

*Figure based on incomplete sample.

Source: "Operating Results of Food Chains in 1960, <u>Harvard Research Bulletin</u>, <u>No. 462</u>, Harvard Business School, p. 16.

COMPARISON OF COMBINED I.G.A. WHOLESALE AND RETAIL OPERATIONS WITH OPERATING RESULTS OF 53 FOOD CHAINS IN 1960, BEFORE TAXES

	I.G.A. Combined Whole-Sale and Retail Figure for 1960	Percentages Computed from Combined Dollar Figures of 53 Chains
Gross Margins	20.24%	22.98%
Operating Expenses	15.70	20.24
	4.54%	2.74%

The Fourth Annual I. G. A. Comparison of 28 I. G. A. Wholesale Companies With 50 Corporate Food Chains as Reported in 1959 Operating Results of Food Chains by Harvard Business School.*

	I.G.A. 28 Wholesale Companies	50 Corporate Food Chains
Inventory turnover . .	18.47 turns	12.07 turns
Return on investment .	11.26 %	12.87 %

Stock turns for corporate chains for 1960 vary from averages of 11.95 turns per year for $100,000,000 group to 17.85 turns for group in less than $20,000,000 sales group. Super Valu Stores for 1960 attained a stock turnover of 21, which is well above the average.

The figures presented in this chapter confirm that voluntary wholesalers are operating efficient, low-cost and profitable supply depots, and their affiliated retailers are competitive merchants generating profits commensurate with industry standards.

*Second Annual Financial Seminar of I G.A., February 2 and 3, 1961, p. 13.

PART FOUR

THE FUTURE

CHAPTER IX

PROJECTIONS FOR THE FUTURE

Perpetuation of the Voluntary Group

This thesis has attempted to portray the history and progress of voluntary groups in food distribution during the past four decades. What may be described as the fifth and current evolutional stage constitutes the challenge of the future, with its accompanying problems and constant changes. How voluntary groups accept and overcome these problems in several particularly important areas will determine much of the future effectiveness of these groups.

Voluntary groups have proven that independent affiliated retailers are efficient outlets of mass distribution. They have flourished by adopting all the advantages of independent retailing. However, the voluntary group system is not a magic formula that alone provides the answer to the competitive food problems of the independent merchant. To perpetuate the voluntary group system, it must continue to progress and advance in all areas of the food industry. The author recommends to management in affiliated groups particular attention and study in the following five areas:

Clearly Defined Policies

There must be more clearly defined policies for member stores. This can be accomplished to a great extent by centralization of policies and functions. Clearly defining the responsibilities of the wholesaler and retailer are of paramount importance in the success of voluntary groups. Capable management by voluntary wholesalers in many cases has been nullified by lack of cooperation on the part of the retailer. No voluntary group can operate successfully unless the group members cooperate with the policies of management.

Voluntary wholesalers are responsible for seeing that their policies and functions are understood and effectively carried out by the group, and its programs must be directed with vigor and enthusiasm. Voluntary groups can only be as strong as its voluntary wholesaler. Maximum group cooperation permits the wholesaler to streamline and standardize his operations, thus making possible reductions in distribution costs. This does not prohibit adjustments occasioned by industry changes, local conditions, and the necessity of establishing different classes of retailers according to size.

Flexibility of voluntary group operations is the chief advantage held by the independents over the chains. This ability to act quickly under reasonably standardized operations is an area to which voluntary groups should give the greatest study and emphasis.

Research and Scientific Management

One of the weaknesses of present day food distribution is the lack of scientific management to determine industry needs and the consumer's wants. One of the important areas in industry needs is the effect of the constant upgrading of super markets on the low price image in the mind of the consumer, and areas in which costs can be reduced. A vital area in consumer's wants is to determine to what extent the public wants combination food and general merchandise in a discount house operation.

There must be increased research and application of scientific management. Tradition and opinion is not a sufficient basis for judgments, and policy is too frequently determined by following rather than by dynamic leadership. Voluntary groups must be alert and organized to recognize the need for change and adapt themselves quickly. The recognition by voluntary groups of the need to make use of scientific information at the proper time can accelerate the development of its groups, just as the failure to do so can seriously deter its progress. The history of food distribution clearly indicates the high mortality of merchants who fell by the wayside while resisting progressive changes.

Availability of Specialists

Many voluntary groups are not of sufficient size and volume to provide expert services such as management counselling, scientific site location and evaluation, financing of land, buildings, fixtures, and opening inventories, scientific store engineering and the benefits of constant research and recommendations.

To make these specialists available to all voluntary groups, the author recommends the establishment of a central body to conduct essential research and supply expert assistance on a contributing basis.

While there are specialists in all fields available to voluntary groups, either through trade associations, management consultants and independent experts, it is usually handled by voluntary groups on an inconsistent, emergency basis due to the high cost of the manpower.

The central organization of specialists available to voluntary groups would be financed on a contributing basis, according to the size by sales volume and number of customers serviced by the voluntary wholesaler. The function of this organization of specialists would be to constantly supply its members with the most modern scientific and industry-wide information available. In addition, their services would be available to the member voluntary groups on a schedule of prices that all could afford.

This pooling of expert manpower will operate to develop better informed wholesalers and retailers. Better informed independent merchants is one more powerful weapon to perpetuate and increase its present successes.

Upgrading Existing Stores and New Construction

The voluntary groups have made a major contributions to the vanishing of the small operator, by accepting responsibility and helping the small stores grow into superettes and the superettes attain super market status. Independent expenditures in store modernization and remodeling totaled approximately $171,000,000 for 1960, and far exceeded that of the chains.[1] The independent operator is almost always the sole owner of his store. Therefore, he has the keen desire, drive, and incentive to build up sales of existing outlets by remodeling, modernizing, and expanding.

In the area of new store construction, out of an estimated 3,000 new stores of all sizes built in 1906, 1,600 were chains, and 1,400 were independents. But in terms of size of stores the chains held a big advantage over independents in super market size outlets, 1,400 to 800. Chains built one new super market for every eleven existing super markets in 1960, compared with one new super market for every nineteen existing among independents--an advantage of nearly two to one.[2]

The voluntary groups are aware of this condition, and have begun to find ways to obtain increased funds needed for expanded super market construction. Many more wholesalers

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[1]Address by Robert W. Mueller, Editor, The Progressive Grocer, at the Annual National American Wholesale Grocers' Convention, Chicago, Illinois, March 14, 1961.

[2]Ibid.

must make available to retailers a program whereby a group retailer can own and operate his super market with a minimum of equity required. This is one of the greatest challenges facing voluntry group expansion.

Emphasis on New Items and New Departments

Voluntary group expansion is manifested in many ways. Among the two important contributions to their growth is the increase in the number of items handled, and the addition of new merchandise lines. New concepts in merchandising based upon more intensive and more scientific research can be expected.

Voluntary groups must not only continue to be receptive to new ideas, new lines, and new products, but must recognize that these additions contribute substantially to their continuing growth and, therefore, endeavor to be in the forefront.

Summary of Perpetuation of Voluntary Groups

The constant upgrading of personnel and practices of voluntary groups has been responsible for the emergence of the new independent group retailer, who is actually increasing his share of the food retailing dollar. His success is tied to the modern voluntary wholesaler who is providing modern management and services at competitive prices.

The voluntary group system will continue to flourish and obtain a greater share of the food business. They have almost matched the chain store advantages and are capitalizing on their most advantageous difference--that of independent ownership. The corporate chains are meeting this "incentive of ownership" advantage of the independents in several ways. Many chains are offering store managers stock options, stock bonuses, and some are gearing store managers' salaries to sales and expense figures. Chains have also decentralized their operations in varying degrees and have permitted greater local control by delegating more authority to the store manager, and thus are attempting to combat the greater flexibility of the independent operator at the store level.

The competitive forces of these two different systems operate to bring out the best in each.

Predictions

Affiliated group expansion. The affiliated groups, consisting of voluntary and cooperative groups, will continue to do an increasingly large share of the total food business. The unaffiliated independents will continue to lose some ground and then remain comparatively static.

Affiliated groups versus corporate chains. The competitive struggle between corporate chains and voluntary and cooperative groups will occur at the local and store level. There will be increased emphasis on flexibility of management at the store level and on perishables, quality, service, and on non-foods. Competition will be super market against super market based upon the efficient or inefficient operation of each.

Vertical integration. Voluntary groups will investigate the profitability of vertical integration to develop and extend their lines of products and services to obtain additional sales volume and profits. This may be attempted by large volume voluntaries or by groups of voluntaries working through buying groups. This will result in keener competition between national and private group brands for shelf position and sales volume.

Federation of voluntaries. Voluntary groups may possibly merge into one or several federations of voluntary groups. Federations will help to strengthen and expand the voluntary group image, will permit more original thinking and planning and less imitating of the corporate chains, will permit the establishment and promoting of the federation's private brand with national distribution supported by national and local advertising, and can establish training programs nationally for field men and trained specialists.

The effect of discount houses. Super markets will move increasingly into discounting in retailing to protect its low-price image and not to lose food sales to this new competitor. Voluntary groups will experiment with developing food departments in discount houses and will expand their non-food departments in the super markets into discount sections. Voluntary wholesalers will help to establish a limited number of discount houses that will include a food super market and many existing stores will be enlarged or remodeled to handle a wider variety of discount items.

Voluntary groups of smaller discounters. To meet the competition of giant discounters, some smaller discounters will join together and form voluntary group organizations. This will enable them to share costs and economies of buying, administration, and merchandising. The discounters will tie in with suppliers or a discount wholesaler, which will give rise to a new type of wholesaler, a voluntary wholesaler supplying all the needs of a discounter.

Package deals to establish new super markets. Many voluntary groups will assist retailers by making it possible for individuals to launch their own fully-equipped super market for a cash investment of less than one-fourth of the capital investment usually required. This kind of assistance will contribute in a substantial way to an increased share of the food business by affiliated groups.

Conclusions

The modern voluntary group is the product of a process of evolution that began with small organizations that were formed for the purpose of obtaining lower prices through group buying. The independent merchants of the 1920's were of the opinion that buying groups was the complete answer to competing with the newly introduced chain store system.

As long as members of such groups continued to obtain a satisfactory volume of sales, they were satisfied with the benefits derived from the limited scope of their groups. When competition from chain stores increased within a few years, these groups of retailers were forced to realize that the lower prices obtained through group buying alone were insufficient to match the newly conceived chain store system and their methods of merchandising and operation.

As sales volume for these groups dropped, it became apparent that the most advantageous remained inventory, until the sale of the product produced the required profit. To meet the ever-increasing pressure of chain store competition, many buying groups sponsored promotional activities for its members. Some extended their activities further, and eventually their guidance influenced functions in every department. This was the basis for the development of the modern voluntary group.

The introduction of the chain store system caused the independent retailer of that day to meet this new competition at first with ridicule, protest, and resentment. As the chains proved successful and flourished, the weaker independent retailers either liquidated their businesses or failed. The strong independents studied the chain system and began to emulate them and introduced the voluntary group system.

The 1930's saw the development of combination stores, and the expansion of the chain store system and of the voluntary groups. The 1940's saw the development of self-service, culminating in the acceptance of the super market concept of food retailing. The 1950's were marked as a period of super market expansion that has brought food retailing to its present state of intense competition.

Voluntaries have adopted many of the chain store policies that have contributed to effective mass retailing. Today, voluntary groups through effective wholesaler-retailer integration, have developed management, facilities, and service that equal corporate chains. However, there still remains the two basic differences in the systems, that of capital structure and ownership. The importance in differentiating between these two systems is to observe and determine how and to what extent each system makes the most effective and profitable use of its organization.

Retailers affiliated with voluntary wholesalers are making the greatest strides in our dynamic food industry. Affiliated retailers have increased their share of the total United States food store sales from 29 per cent in 1947 to 48 per cent in 1960, as compared to an increase for chains during the same period from 37 per cent to 39 per cent. Unaffiliated independents for this same period dropped from 34 per cent to 13 per cent, a decline of 21 per cent. While these figures indicate that the advances made by voluntary and cooperative groups were at the expense of the unaffiliated retailers, it is reasonable to assume that if affiliated retailing had not matured in modern retailing, the chains would have increased a much greaeter percentage in sales over their 2 per cent increase.

The affiliated independents have practically halted the inroads made by the chains on the independents, and competition today is on a fairly equal basis between affiliated groups and chains.

Today there still exists the differences between the chain store system and voluntary groups in capital structure and ownership. This difference in ownership is the affiliated merchant's most potent weapon. Because of independent ownership and capital investment, it has the built in initiative and incentive of the man who is in business for himself. He has the greatest flexibility to take quick action on the local scene and can more readily adapt his store to the community. He has greater freedom of merchandising and operating, and more flexibility in retail pricing at his store and local level.

Most chains have recognized the growing competitive force exerted by local competition and the retail sales gains they have registered. They are coping with this flexibility by moving with varying degrees from central to local control over their super markets. Through this decentralization, the super market manager of the corporate chains has been delegated power and authority once reserved for central headquarters.

Chains are combating the incentive of ownership of affiliated retailers by increasing the compensation of their store managers through various plans.

It is important to point out that the "flexibility" and "incentive of ownership" on the part of affiliated retailers are competitive factors of one syatem that required a competitive system such as the corporate chains to meet the competition with their own weapons. Each system will succeed to the extent that it maximizes the effectiveness of each organization.

The story of how independent food retailers and their wholesale suppliers met the challenges of forty years of food distribution has been told.

Voluntary groups have demonstrated the strength of free enterprise in affiliated food distribution, and future chapters in its history and evolution will witness the vigorous growth and successful expansion of voluntary groups.

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