KASKASKIA STORES, INC.:
A CASE STUDY IN GOAL SETTING

By

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CHAPTER I

INTRODUCTION

Kaskaskia Stores, Inc. is a family-owned corporation operating five supermarkets. The firm has been in operation for twenty-one years. Mr. Able, founder, is still the chief executive officer, and he conducts many of the day-to-day operations. Mr. Able is approaching the retirement years along with Mr. Baker, chief assistant of the firm for twenty-one years.[1] Of primary concern, then, is the future of the operation in the absence of the owner-founders.

One of two alternatives--sale or management procurement--will be selected as the most advantageous course of action when compared to family and personal goals. Able feels that the business is lucrative only if properly managed. While no projections have been made by the firm to predict its possible future earning power, both men agree that there is opportunity for continued profits, growth and expansion as a supermarket chain.

The present operation is, for the most part, fully dependent upon Able for direction. There are no specific goals, objectives, or programs (such as sales goals or

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[1]The names Able and Baker and the title Kaskaskia Stores, Inc. are used throughout the paper in lieu of disclosing true identities.

market-share goals) for the firm which are communicated to other operating employees in any way except through incidental conversation. No budgets are used, few meetings are held, and minimum records and reports are made. In general, Able is in full control, and is indispensable. Company operating policies are somewhat better known by the store managers, but none are written. Able finds no need to write policies because he has them well established in his own thinking.

The firm's dependency on Able and his experience makes him difficult to replace. Further, the degree of dependency upon Able supposedly hampers expansion because duties, responsibility, and authority are not sufficiently dispersed to allow control to be a physical possibility. The ability of Able to supervise all the functions of a greater market-area penetration, in person, is not possible under existing circumstances of age, health and techniques.

The Problem

Ownership of the corporation is held by Able (58%), Able's two sons (16% each), and Baker (10%). The Board of Directors and the officers are simultaneously these four persons. It is their responsibility to plan the future goals, activities, and general policies for the firm.

The problem of this paper is, so far as is possible with present analytical tools, to determine what the future of this business is when viewed as a going concern. Specifically, can this firm survive, make a profit, and grow during the next decade? In considering the problem, factors of family concern in the operations will not be considered.

The Objectives

The writer is one of the aforementioned sons. It is expected that, if the future of the business appears to hold potential for survival, growth, and profits, the writer will enter the operations as a chief-executive trainee. Therefore, the slated objectives of this paper are designed to benefit both the man and the firm. They are:

1. To familiarize the writer with the operations of Kaskaskia Stores, Inc. so that he may, at a future date, be better prepared to accept and perform management responsibilities with greater understanding.
2. To review the present status, practices, and policies of the firm with respect to market changes and observable trends.
3. To prepare useful recommendations to aid the company in adapting to future problems.

The Hypothesis

It is hypothesized that Kaskaskia Stores, Inc. can survive, make a profit, and grow in the retail food industry as an operator of traditional[1], self-service[2], retail food outlets in smaller cities and towns.

Methods

Because of the speculative nature of this hypothesis and the many unknowns which bear a relationship to success in business, the hypothesis cannot be positively or negatively proven with absolute certainty. It will, however, be tested under restricted conditions. Certain unknowns which are totally or largely unpredictable will be assumed as constant. Those which can be reasonably predicted will be taken under observation and applied against the problem.

The primary process of the test requires four steps. (1) First, an historical background will be compiled covering goals and activities. This description is covered in Chapter II, Historical Resumē. (2) Next the paper will cover a static view of the firm's present position. The internal status will be related in Chapter III, Policies; Chapter IV, Personnel; and Chapter V, Financial Evaluation. Externally, the firm will be related to its market place

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[1]By "traditional" is meant "an outlet for food products including dry groceries, fresh meats and produce, frozen foods, dairy products, and limited general merchandise to include soaps and household needs, non-prescription drugs, and limited soft goods." This is to distinguish the operation from the inclusion of food products with department store merchandise on a "discount center" basis.

[2]By "self-service" is meant "self-service concept" of merchandising, although in some instances, a service meat operation may be used within the limits of this concept.

(both buyers and other sellers) in Chapter VI, Market Description. (3) Third, the firm's future will be analyzed by market projections, sales projections and profit analysis in Chapter VII, Sales and Profits Projected. (4) Lastly, the author will conclude with his thoughts about the firm's future successes and losses and will make pertinent recommendations. This will be covered in Chapter VIII, Conclusions and Recommendations.

Most important to the total analysis are the projections made in Chapter VII. Briefly, the concept used here shall be to:

1. Analyze past five years of operations.
2. Project sales mathematically for two, three, five, and ten years.
3. Make deviations upon this projection for observable trends in the market place.

Step one involves questioning the degree to which of the firm's records fairly represent the actual situation. (See Appendix A) Step two is accomplished through a simple linear projection over time based on the linear equation $Y' = A + Bx$ (where Y' = Sales. A = the base annual sales; B = the annual increment of sales increase; and x = the year). In part three, diviations are related against the projection consistent with the following assumptions.

1. During the past five years, a sales and profit trend has been occurring.

2. This trend will continue, in like fashion in the future.
3. The past trend will be modified by market forces. Some market forces are predictable and others are so random as to defy justifiable prediction.
4. In the prediction here made, only predictable market forces will affect the firm's trend. These are:
    a) A changing external structure due to changing populations, incomes, and competition.
    b) A changing internal structure due to changes in the firm's potency in the market place.
5. The firm can aid its survival, growth, and profits by identifying and predicting market forces and preparing to cope with their effects.

Significance of the Study

This study concerns a firm whose planning has been done by one individual's reliance on past experience and intimate market relationships. This method has proven successful in the past. However, as the corporation grows older and the founder is less active, a gap of inexperience opens up before the new management. This analysis and projection on paper is a basis for filling part of the gap. It has as its goal, a more formalized planning stage and a more aloof approach to market knowledge. However, these factors allow an objective view of the firm's progress, potential, and future which should prove valuable for future managers in this business.

Definitions

The following terms are defined for the purpose of this paper only. It is the writer's opinion that they are often mistaken in everyday language, mostly because of many arbitrary definitions made by various parties. The author does not wish to have these definitions accepted by the industry, nor is he attempting to confuse the issue. The purpose is to add clarity to the remainder of the paper.

Market

A market is a geographical area in which persons, through the exercise of their individual wills, spend income to purchase goods and services supplied by one or more sellers.[1]

Supermarket

A supermarket is a concept of retail food distribution where meat, dairy, produce, and dry groceries are sold in one store by one management on a self-service basis. Further, the definition takes into consideration the town size and the extent to which each product line is carried. The supermarket should cater to a weekly "one-stop" food shopping concept and is, thus, differentiated from the discount center which carries

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[1] See Smykay, Bowersox, and Mossman, Physical Distribution Management (New York: The Macmillan Company, 1961), p. 13; and Converse, Huegy, and Mitchell, Elements of Marketing (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1958), pp. 28-32.

non-foods and the superette which caters to "pick-up" sales. In some cases, meat may be operated on a "service" basis and still remain within the supermarket concept.

Small Cities and Towns

A small city or town in this paper refers to a group of persons who number from 700 to 7,500 and who live in an organized community which is distinct from other urban areas. Cities of less than 700 population are hamlets. Cities of over 7,500 population tend to be more industrially oriented as opposed to being agriculturally oriented.

CHAPTER II

HISTORICAL RESUMÉ

Goals

The first Kaskaskia Store was founded as a proprietorship in 1941. Mr. A.A. Able was the founder. The goal of the first supermarket, and all subsequent markets, has been a reflection of Able's personal desire to provide his family and himself with a desirable social climate and better than average financial resources. This goal reflected itself in Able's selection of a small community in the prosperous section of mid-Illinois where agriculture flourished, industry was not dominant, supermarketing was a novelty, and racial relations were harmonious.

Able had no previous supermarket or food marketing experience. However, seventeen years of successful variety store management with the S.S. Kresge Company did provide him with a sound background for retail operations. So, with the availability of a large vacant building and a growing dislike for the future in a large chain operation, he obtained the services of Mr. B.B. Baker, a former A & P manager and formed the first store.

The goal of this business has been to be the dominant retail food factor in each town in which a supermarket was operated. It has been Able's theory that, given a small community where major chain competition is not normally severe and where a small group of intelligent independent operators serve the community, the use of unprofitable competitive tactics is normally held to a minimum. That is, in an isolated market which has a static food demand; e.g. a rural community, a price slash or other generally disturbing tactic is immediately copied in large part by all sellers in the market. Thus, the general profit margin level is lowered by an equal amount in each store, and there is no net gain for any store.

This is exemplified by store hours. If there are four primary stores in a small city, and the city consumes $2 million of food annually, each store, if equal, would have sales of $500,000. If store A decided that the regular store hours of 7:30 a.m. to 6:30 p.m. were not to its liking, the store might well decide to remain open to 9:00 p.m. each evening. If the other three stores stayed closed, A would undoubtedly gain, since some people would adopt evening shopping habits. So, stores B, C, and D would most likely elect to stay open to 9:00 p.m. The effect, then, is to increase expenses in all stores and not to increase sales in any store; hence, the profit in each store is reduced.

In a town with only four stores and where every owner and manager realizes the truth of this concept, each is hesitant to start such a disturbing cycle. Further, in the same illustration, if store B were larger in volume than either A, C, or D then A's action would evoke the anger of B who might well, because of superior position, force A's position well below what it might otherwise have been.

Therefore, Able set a goal to be the dominant supermarket in each town in order to reap the benefits of a stable retail situation in a prosperous community. Further, Able realized the need for definite policies to achieve this goal. Basically, these policies were "sub-goals" necessary for gaining dominance in a small town where market size is fixed and repeat business is of the greatest importance.

First of these is the "service concept" which might be thought of as "selling a meal"--not a pound of hamburger, a bag of potatoes, and a loaf of bread."[1] Unless the homemaker is provided with a satisfying source of food needs, she will not respond with weekly purchases and the business will not prosper. Therefore, the supermarket concept offers groceries, meat and produce at one location, with low prices and convenient hours and parking. In the early days, animal feed was also sold and the store operated as a collection agency for farmers' eggs.

Second has been honesty in all dealings, and third, a policy of cash sales only, reflecting experiences of the 1930 depression. Fourth has been an image of reasonable prices for merchandise sold. That is, no attempt is made to give the impression of selling goods either below cost

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[1] This idea is expanded in a section entitled "Object of Marketing," Converse, Huegy and Mitchell, Op. Cit. pp. 4-5.

(such as discounting) or of selling expensive delicacies. It has been the aim to have the homemaker view Kaskaskia as a reputable store where, week in and week out, she may spend her food dollars and receive the goods and services which she wants at a price which reflects the true value of that expenditure.

The attainment of Able's personal goals is a realty. Able is not rich but has above average material means, and his family life has been happy. In the business, dominance has been achieved in most towns and profits have been better than average.

Brief Chronology

1941

Founded first store as proprietorship; Shelbyville: supermarket concept not easily accepted

1942-43

Business developed; war restrictions caused procurement difficulties

1944

a) Shelbyville sales up well

b) Formed partnership (Able and Baker) to purchase store in Moweaqua.

1945

Partnership purchased two markets in Sullivan and St. Elmo; all stores grew in sales and profits

1946

All stores prospered and grew with pent-up war demand unleashed

1947

Partnership dissolved and corporation formed to own all but Shelbyville (still a proprietorship); capitalization, $30,000

1948-49

Sales in most stores grew and corporation prospered

1950

a) Corporation purchased store in Findlay

b) Lost some employees in Korean War callup

1951

a) Closed Sullivan store due to unfavorable new rent requirements

b) Entered into a new buying agreement with voluntary group warehouse on a cost plus basis; identity of Kaskaskia name kept; store advice and general aid made available from warehouse

1954

Shelbyville store relocated in new building

1955

Shelbyville store added to corporation; new capitalization, $60,000.

1958

a) Competitors opened new store in Moweaqua

b) Kaskaskia opened new store in Arcola

CHAPTER III

PRESENT FIRM POLICIES

Inherent in the use of policies is the concept of a goal to be achieved.[1] As previously stated, Able has sought to dominate each town in which he has operated a supermarket. By domination Able means that the Kaskaskia store shall do more gross sales than any other single supermarket in the town. In towns with populations from 700 to 5,500, this might range from 30% to 90% of the total retail food sales, depending on the size of the town and the number of markets in the market area.

When the business started, only one store was operated. Therefore, store policy was firm policy. However, with the addition of more stores, the question of the uniformity of corporate policy was immediately raised. In general, the solution has been to allow each store to adapt to its particular market needs and to let corporate policy be broad, general, and for the most part, a recognition of the need for complete adaptation.

The following statements are the firm's policies as induced by the author from past management decisions.

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[1]For a development of this concept, see William H. Newman, Administrative Action (New York: Prenctice-Hall, Inc., 1951), pp. 14-41.

Policies Covering General Organization, Authority, and Responsibility

Central Office

The firm's central office is in Shelbyville. From this office, the chief executive will conduct:

1. General supervision over all stores
2. General financial control
3. Policy formulation
4. Advertising for all stores
5. Purchasing for all centrally purchased merchandise (see Procurement Policies)
6. Expansion planning
7. General business administration (such as purchasing insurance, purchasing equipment, goal setting, controlling, coordinating, etc.).

Store Manager

Each store shall have a manager. This person is responsible for the conduct of operations in his store. Generally, this shall consist of the functions of:

1. Daily merchandising and supervision
2. Ordering and receiving control
3. Pricing
4. Hiring and firing of other than key persons
5. Equipment maintenance
6. In-store organization of routines and personnel
7. Cash control and check control.

The store manager shall be entrusted with keys to the building and the combination to the safe. Each manager shall be responsible for drafting checks against that store's bank account.

Due to the firm's size and the closeness of the manager-supervisor relationship, these functions may be expanded or contracted in number or degree of performance, in order to meet market needs or to ease the supervisory load.

In-Store Organization

The store manager has the authority and responsibility to manage all store departments. The manager shall appoint department heads, primarily in meat, grocery, and produce, but regardless of this delegation, the manager is accountable for the proper operation and control of these departments.

Merchandising Policies

Products

Each store shall sell:

1. Dry and frozen groceries and spices
2. Fresh and frozen dairy products
3. Fresh meats
4. Fresh fruits and vegetables
5. Paper products for office and home
6. Soap, detergents, household cleaning tools
7. Tobacco
8. Seasonal items (Christmas trees, seeds, decorations, etc.)

9. Soft drinks.

In addition, stores may carry the following items where the market demand will justify the cost or where the additional items will add to customer satisfaction:

1. Magazines and periodicals
2. Records
3. Household utensils
4. Limited soft goods (such as socks, gloves, hosiery, etc.)
5. Pet supplies
6. Diatetic foods
7. Ethnic foods.

Pricing

The goal of pricing is to sell products at or slightly below the market level. Each store shall set its own prices.

For dry groceries, the price shall usually be figured by adding 5% for transportation costs to the Suggested Retail Price as supplied by Campbell-Holton. Then, particular market factors such as competitive prices and market demand shall be considered to make an adjustment to the selling price. The department should gross not less than 17%.

For fresh meats, the firm desires an 18% overall gross profit for the entire line. Meat managers shall price according to this goal and with respect to particular likes and dislikes of the market.

Fresh fruits and vegetables shall be sold at a price which reflects what the customer will be willing to pay. In accounting for the highly perishable nature of the goods, it is expected that losses on some items will be paid for by gains on others. The entire line should gross not less than 25%.

Tobacco shall be sold at market prices. The line should gross not less than 9%.

Those items supplied by rack-jobbers shall be priced and marked by the jobber. Since the profit on these items is guaranteed as a per cent of the total sales, markup will be a matter of negotiation prior to purchase. Normally, these lines shall gross as follows:

Health and beauty aids . .	21%
Magazines and records. . .	25%
Household items	28%
Others	28%

Merchandise Quality

It is the policy to carry high quality nationally advertized dry goods in all departments, and not to sell private label merchandise. There is no strict policy as to which brands and how many brands of any one good are to be stocked by any store. The store manager and the general supervisor shall decide which goods are to be sold in order to adapt to market needs and demands and to develop a good store inventory turnover.

However, an attempt will be made to sell superior quality fruits and vegetables when prices permit availability to the market. Also, an attempt will be made to carry choice beef under the thought that a good piece of meat at a slightly higher price will provide a better meal and more satisfied customers than would a cheaper grade. However, the demands of the market will prevail.

Special Promotions

It is the policy to advertise weekly in the local newspaper. The ad shall carry at least two meat items, two produce items, and varying numbers of grocery items. Specifically excluded from advertisements are items which are prone to cause price wars, such as:

1. Milk and milk products
2. Sugar
3. Cigarettes
4. Drug items
5. Bread

The goal of the advertisement is to get the customer into the Kaskaskia store. Therefore, it is the policy to price these goods at a substantial savings to her. Normally this will be at cost or slightly above. Extra stamps may be used as added inducement to purchase. In addition, it is the policy of the firm:

1. To fairly represent all advertised items in the weekly ad
2. To order sufficient merchandise to fill all probable demand for advertised items

3. To give advertised prices to all customers.

The firm shall give S and H Green Stamps on all purchases except tobacco, at the rate of one stamp per $.10.

<u>Customers</u>

The primary customer shall be the homemaker, and her needs will be catered to first. Secondarily, the firm will seek sales to institutions such as restaurants, churches, schools, hospitals, large groups, and public functions. Prices to individuals and institutional groups may be lowered to:

1. Meet competition
2. Reflect savings of cost from quantity sales
3. Reflect a savings due to not giving stamps.

Procurement Policies

<u>Voluntary Warehouse</u> (Campbell-Holton and Company)

The primary source of supplies and non-fresh food items shall be from the firm's affiliated warehouse in Bloomington, Illinois. Weekly orders and delivery shall be made through this house for all items of merchandise and supplies not listed in the sections below. Campbell-Holton will be paid through Shelbyville.

<u>Central Purchases</u>

Because of the storage facilities in the Shelbyville store and warehouse and because of desirable cost advantages, the following items will be ordered from Shelbyville (transferred):

1. Sugar
2. Proctor and Gamble and Lever Brothers soaps and shortenings and peanut butter
3. Hershey cocoa and chocolate syrup
4. Maxwell House and Folgers coffee
5. Milnot
6. Lipton and Tenderleaf tea
7. Debuque hams
8. Seasonal items as described.

Fresh Merchandise Purchases

Fresh fruits and vegetables will be purchased from M. Momino when desired goods are available (pay cash on delivery).

Fresh meats and meat products will be purchased from salesmen who call on the store. The meat department manager shall decide which packers shall supply which items. Purchases shall be paid in cash by each store weekly.

Rack Jobbers

The following items shall be furnished by rack jobbers (billed via Shelbyville for payment).

1. Health and beauty aids
2. Records
3. Household utensils
4. Gloves
5. Magazines

6. Seasonal items as directed.

Local Truckers and Agents

The following goods will be purchased from local agents (pay cash on delivery).

1. Bread
2. Cookies and crackers
3. Milk and ice cream
4. Soft drinks
5. Seasonal items as directed.

Personnel Policies

For purposes of reference, employees are categorized by jobs according to the degree of their market scarcity due to their ability and experience. The four categories are: Key People, Floor People, Clerks and Checkers, and Part-Time Help.

Selection

Key People

Key people are supervisors, store managers, and meat department managers. There is no policy as to the source or background of these persons. Because of the responsibility given to them, the firm expects these persons to exercise loyalty and judgment of the same magnitude as would be expected of them if they, in fact, owned the store. They will be hired and fired by the chief executive.

Floor People

Floor people are produce and grocery department managers and butchers. These people are to be hired from the market area of that store when possible. They are to be judged on experience, honesty and loyalty. Floor personnel will be hired and fired on the combined judgment of the chief executive and the manager.

Checkers and Clerks

Checkers and clerks include checkers, stock boys, janitors, meat wrappers and other general full-time persons. These persons are to be selected from the local populace. The criteria will be honesty, desire to work, ability, need, and experience. These persons are to be employed at the discretion of the manager.

Part-Time Help

Part-time help will consist of carry-outs, and weekend and special promotion helpers. They will be employed at the manager's discretion and will be selected from the local community.

Training

There will be no formal training for employees at the expense of the firm. There is no prescribed program of in-store training except that store managers will see that new employees are briefed on their responsibilities and are given supervision by an experienced employee.

Vacations

Employees will receive one afternoon free per week to start at 12:00 noon. There will be no compensation for this time off. Full-time employees with less than 5 years of service will receive 1 week annually of paid vacation. Employees with over 5 years of employment will receive 2 weeks paid vacation annually. Vacation dates will be worked out according to the requests of the several employees.

Compensation

The firm will pay employees at the going market rate on an hourly basis except where legal restrictions demand a higher rate. At the time of employment, the employee will be advised of his hours and hourly rate. Rates may vary from store to store to meet market needs.

It is the policy to pay employees in cash at the end of the last hour of work during the week. In addition, the firm may share the profits of the business with the employees in the form of a quarterly bonus. The amount of the bonus payment shall depend on a) the firm and store profitability, and b) the chief-executive's view of the individual's contribution to the past success in terms of loyalty, attitude, and labor. The chief-executive will also remember each employee at Christmas time with a cash gift based greatly on the above criteria.

Fringe Benefits

A group insurance program will be made available to all fulltime employees. At the option of the employee, he (or she) may receive life-insurance for himself and hospitalization, surgical, and partial-medical coverage for himself and his family. The firm will bear 65% of the cost of the insurance and the remaining 35% will be deducted from the employee's salary on a weekly schedule.

Employees with over thirty-six months of continuous employment with the firm and who can physically qualify via a medical examination are automatically covered under a firm-paid pension plan. The plan carries retirement benefits and life insurance. After sixty months of continuous coverage, employees gain a vested interest. Employees not physically capable of being covered will be provided for under an annuity program paid by the firm.

<u>Unions</u>

It is the policy to discourage unionization of the store employees.

Store Operating Policies

<u>Hours</u>

Stores will adapt their open hours to the business community in which they operate except stores will not be open for business on Sunday.

<u>Store Appearance and Image</u>

Managers will see that stores are kept clean and neat. Also, they will see that situations are corrected which might cause bodily harm, equipment injury, or a sullied reputation. To these ends it is the policy to:

1. Prohibit employee smoking in the building
2. Discourage customer smoking in the building
3. Prohibit any sale or consumption of beer, wine, or any other alcoholic beverage on the premises by any person.
4. Discourage profanity and gossip
5. Conduct periodic fire inspections
6. Not allow use of the facilities by any person or group who might tend to harm the property or themselves or endanger the good name of the firm in the market place
7. Sort out those periodicals left by the rack-jobber which contain pornography or lewd material.

Store Services

The purpose of the store is to sell food. The first service, then, is to provide a convenient, well-stocked store with prices in line with the market.

Stores will also provide:

1. Free store-to-car carryout service
2. Free check cashing service
3. Special order service for items not normally stocked
4. Clean rest facilities
5. As much free parking space as is economically practical
6. Delivery service to institutional customers.

Under no condition is it the policy to allow credit purchases to customers except institutions and persons on government relief. In these cases, the manager must authorize the extension of credit.

Financial and Accounting Policies

Cash

Each store manager shall take adequate precautions to control cash. It is the policy to make daily deposits of the net of:

1. Day's cash receipts

Add 2. Previous cash balance

Total cash available

Less

1. Cash payouts
2. Estimated cash needed for operations and check cashing before banking hours of following day

Deposit for day.

To avoid costly checking expenses, payouts from cash receipts may be made for local purchases, trucker purchases, and salaries. Only the manager may make these payouts except in Shelbyville where the bookkeeper will control the cash box. No purchases will be accepted and paid without an employee count and signature.

Store and Firm Drafts

Store managers are authorized to draw drafts on their store account except Shelbyville, where the chief executive and assistant are authorized.

Only the chief executive and his assiastant are authorized to sign drafts on the corporate account.

Accounting

Store managers will submit daily report forms to the Shelbyville bookkeeper. Managers will keep only memorandum records of sales and cash balances. All other accounting and recording will be done by the bookkeeper in Shelbyville. The accounting firm of Gauger and Diehl will perform annual tax and statement preparation from the company books.

Inventories

Inventory of all merchandise and supplies will be taken by the employees on a quarterly schedule. It is expected that each employee will help during the inventory. Items not on retail sale will be accounted for at cost or market, whichever is lower. Items on the shelf will be accounted for at retail. Tobacco will be discounted at 10%, produce at 25%, drugs at 25%, groceries at 20% and meat at 20% to determine cost value.

On occasion, the manager or chief executive will require meat and produce department heads to inventory their goods oftener to keep a close check on gross profit.

CHAPTER IV

PERSONNEL

The Personnel Problems

Two primary problems underlie the personnel situation. These are (1) employee ages and retirement, and (2) management utilization.

The Age Problem

It is necessary to assess the personnel turnover in a business analysis. Listed in the following three tables (Tables IV-1, 2, and 3) are schedules of the firm's employees by classes. Key Employees include store managers, the bookkeeper, and meat department heads. Floor people are grocery and produce heads and butchers. Checkers and Clerks consist of checkers, stockboys, janitors, meat wrappers, and other full-time help. A fourth category, Part-Time Help is not shown because of the difficulty in relating part-time figures to any standard.

These categories are arbitrarily made by the author to reflect the firm's thinking as to the scarcity of qualified people. That is, in the central-Illinois market for labor, Key People are less easily found than are Floor People or Checkers and Clerks. This is shown in the higher average pay of Key People, $5,557 annually, as opposed to

Table IV-1

KASKASKIA STORES - KEY PEOPLE ANALYSIS

Individual	Age 1-1-62	Years with Kaskaskia 1-1-62		Wage and bonus Fiscal 1961
		Years	Months	
A	47	13	11	$6,023
B	36	14	2	7,405
C	50	10	6	4,980
D	40	17	3	4,150
E	28	3	6	4,150
F	58	16	3	7,227
G	38	11	11	5,983
H	47	11	2	6,085
I	62	7	5	4,401
J	34	4	0	6,450
K	37	2	5	4,275
Total 11	476	112	6	$61,129
Average	43½	10	3	$5,557

Age Brackets	Number	Per Cent
50 and over	3	27%
45 to 50	2	18%
40 to 45	1	9%
Below 40	5	46%
Total	11	100%

Source: Company records.

Table IV-2

KASKASKIA STORES - FLOOR PEOPLE ANALYSIS

Individual	Age 1-1-62	Years with Kaskaskia 1-1-62		Wage and Bonus Fiscal 1961
		Years	Months	
A	62	6	1	$4,570
B	29	10	8	4,941
C	51	6	9	4,926
D	22	4	0	3,658
E	34	10	1	5,201
F	43	1	0	3,859
Total 6	241	38	7	$27,155
Average	40	6	9	$4,525

Age Brackets	Number	Per Cent
50 and over	2	33%
45 to 50	0	
40 to 45	1	17%
Below 40	3	50%
Total	6	100%

Source: Company records.

Table IV-3

KASKASKIA STORES - CHECKERS AND CLERKS ANALYSIS

Individual	Age 1-1-62	Years with Kaskaskia 1-1-62		Wage and Bonus Fiscal 1961
		Years	Months	
A	23	4	6	$3,688
B	65	19	0	3,614
C	53	11	9	3,617
D	47	3	11	3,129
E	67	12	0	3,037
F	19	1	6	3,552
G	59	5	9	2,345
H	58	8	3	3,450
I	59	10	7	2,685
J	33	1	6	2,685
Total 10	483	78	9	$31,802
Average	48	7	10	$3,180

Age Brackets	Number	Per Cent
50 and over	6	60%
45 to 50	1	10%
40 to 45	0	0%
Below 40	3	30%
Total	10	100%

Source: Company records.

$4,225 for Floor People and $3,180 for Checkers and Clerks.

The figure Average Years with Kaskaskia is an indication of the general satisfaction which most employees have for the firm. Of the twenty-seven employees shown, thirteen have been with the firm over ten years. This would seem especially good since the firm has been in business for twenty-one years and only one store has been open for the full time. A further judgment as to employee satisfaction is that the firm's unemployment tax rate has constantly remained at the lowest assessment level because of superior unemployment contributions.

However, the tables point out a possible future problem. With such loyalty, the average employee age level rises. Over time, the aging organization reaches the retirement period at somewhat the same time. Although Kaskaskia has no policy on forced retirement, one might logically conclude that at age 65, most employees will be ready to retire. If this is true, the following vacancies will occur.

TABLE IV-4

NUMBER OF EMPLOYEES RETIRING

	5 years	8 years	Total
Key People	1	1	2
Floor People	1	0	1
Checkers and Clerks	2	3	5
Total	4	4	8

The table indicates that the firm will probably experience the loss of eight people in eight years through retirement. Two of these will be key people which are harder to replace than the others. Therefore, the firm must be searching for, or training persons to replace those who will retire as well as those who will leave through the normal course of events.

It is also very significant to note that over 50% of the key employees exceed age 40. The supermarket business is generally recognized as strenuous, both mentally and physically. Therefore, as the organization passes the age 40 level, the physical demands on employees become an increasingly greater burden on the average employee. In addition, 50% of the Floor People and 70% of the Checkers and Clerks are over 40 years of age. This combination of strenuous physical and mental exercise characteristic of the supermarket business and the aging personnel structure of Kaskaskia might well prove to cause a higher turnover rate in the future than has been true of the past. This probability strengthens the need for a revamped procurement and training program for personnel within the organization.

There are many problems in up-grading a labor force. Two which are particularly peculiar to small towns are the availability of qualified workers and the ability to make adjustments and maintain public stature simultaneously. Small towns are known for their rapid "mouth-to-ear" communication system where almost everyone is simultaneously informed of the latest events before the newspaper is published. A bad rumor about a store action or about a store employee can have serious and detrimental effects on the store. That is, employees brought in from outside the town may be covertly avoided by the citizens yet in-town employees may not be available. Further, removal of an employee from his position because of his inability to work due to old age might arouse the local relatives, friends, and party line into a "purge" campaign against the "mean old supermarket." Therefore, while removal of an individual might be wise in terms of work out-put, it might be unwise in terms of good public relations.

Management

The present organization is simple. Mr. Able, chief-executive officer, heads all operations. He maintains a desk and office in the Shelbyville store. Here he plans the advertising, makes signs for all stores, purchases the centrally purchased goods, pays bills, plans expansion, controls cash, opens the mail, responds to inquiries, writes firm letters, handles personnel problems, and generally administers the other problems of the firm as they arise. In addition to this, he calls on each store on the average of once per week. During this call he counsels with the manager on plans and problems. Very little written material is passed from Shelbyville to the other stores.

Able is capable of handling this unusually heavy and diverse load because of several factors. First, the store managers are fairly autonomous in their own operations. They are trusted and capable. Secondly, Able has built the organization from scratch and knows, from past experience, the strengths and weaknesses of each store and person. Of course mistakes have been made, but in the past, the costs of more supervision would probably not have been worth the savings resulting from tighter control.

Baker and Able have made a good team in that Baker's life-time experience in food blended well with Able's variety store background. Recently, Able's load has been increased since Baker's health has been declining. Baker is now 70 and Able is 62. In the near future, each man will want to reduce his work load. A decision must be made, then, as to the necessary size, procurement, and utilization of the management corps.

Certainly, some new person or persons will be needed. The writer expects to assume part of the load, and, in the future to become the chief-executive. However, because of his inexperience and because of the short training period, there is a possibility that he will not be able to fill the gap left vacant by both Able and Baker. Additionally, the firm now seems to be undermanaged with respect to adequate planning for expansion and growth. Therefore, the firm must consider the need for and the procurement problems of another management employee and identify the appropriate responsibilities and functions of that person.

CHAPTER V

FINANCIAL EVALUATION

The following section evaluates the firm's present (1) financial condition, and (2) earning power. Included in this chapter are a Balance Sheet and an Income Statement for the Corporation and Profit Contribution Statements for each store. These statements supplement and substantiate the conclusions made. The reader is referred to Appendix A for more detailed analysis. In all statements, cents have been rounded to the nearest dollar. Forty-nine cents and less become $.00. Fifty cents and greater became $1.00.

The firm's fiscal year begins on April 1 and ends March 31. The fiscal year is named for the calendar year in which fiscal year begins. That is, fiscal 1960 began April 1, 1960, and ended on March 31, 1961. The years used in the study were fiscal years 1956, 1957, 1958, 1959, and 1960. Where comparisons are made to published industry figures, the firm's fiscal year is compared to the published annual year.[1]

Financial Condition

A firm's financial condition is usually considered to

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[1]See footnote 2, Table V-1, concerning source of industry figures.

be its ability to pay its debts; its liquidity position, and its solvency.[1] Generally speaking, Kaskaskia was in a good state of liquidity and was solvent at the close of business, Fiscal 1960.

The firm had a current ratio of 2.63 to 1 compared with the industry average of 1.52 to 1. This means that the firm had available, $2.63 of current assets for every dollar current debt.

In addition, the firm owed $49,500 to its owners for term notes. It is expected that these notes will slowly be retired from corporate earnings, but they do not constitute a claim from outside creditors which might come due and drain the firm's cash reserves. Therefore, a sinking fund has not been initiated. During Fiscal 1960, $9,800 of term notes were liquidated.

The firm had no accounts receivable which might become uncollectable. It did, however, have a large inventory account which constituted a possible overstatement should prices drop in the future. However, the inventory turnover (cost of sales/average inventory) is 13.19 times per year or about once every 27.5 days. Management feels that because of inventory costing techniques (lower of cost or market, and elimination of items over one year old) plus market decline agreements with all manufacturers from whom items are purchased

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[1]Nathaniel Jackendoff, "A Study of Published Industry Financial Ratios," Economics and Business Bulletin, (Philadelphia: Temple University, March, 1962), pp. 2-3.

centrally, there is adequate protection over inventory value when turns are at least one per month. Further, the firm takes pride in its record in never having missed a purchase discount for late payment.

Earning Power

The firm has shown good earning power. As shown in Table V-2, the return to the owners equaled $2.48 per $100 sales. The industry average for net profit after taxes was $.92; thus, Kaskaskia profits per dollar of sales were 270% greater than the industry average for 1960.

Considering the profits on investment, the firm has done well. Each dollar of assets of the firm returned 17.83 cents as opposed to the industry average of 6.15 cents. Considering owners' equity, each Kaskaskia dollar returned a handsome 32.77 cents, 275% greater than the industry average of 11.83 cents. Also, Kaskaskia fixed assets turned 33 times to the industry average of 11.

The writer hastens to note the limitations of industry figures.[1] First, these ratios are samplings made by the Robert Morris Associates. There is no statement given in the Statement Studies report telling of the sampling technique used or its reliability. Secondly, although these figures are based on 65 businesses, the percentage of responses and the reasons for non-response are not known.

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[1] Nathaniel Jackendoff, op. cit., pp. xi-xii.

Lastly, and probably most important, there is in use, such a variety of accounting terms and captions that standardization is difficult. Also, because these businesses are small and mostly privately owned, the accounting procedure for profit determination vis a vis owner-operator remuneration is often unclear. Therefore, these figures are not definite benchmarks for judgment but rather guides for general comparison.

The earning power of each store for the past five fiscal years is shown on Table V-5. These figures represent the firm's profit contributions from each store before considering non-operating income and expense and before deductions for administrative expenses of salaries, pension costs, and general supervisory charges. Typical administrative expenses may be seen on Table V-4.

Moweaqua has maintained an average gross profit of 17.37%. However, sales in Moweaqua have seriously dropped since 1957. With the rise in expenses, profits have dropped to a low of $1,489.

St. Elmo has been an excellent earning factor. Although sales have leveled since 1958, gross profit has risen and net profits have shot up to over $.05 on the dollar.

Findlay has shown consistent growth and stability. Sales have risen each of the past five years, and gross profits have remained good at an average of 17.43%. Therefore, with controlled expenses, net profit contribution has risen 53% in five years to almost $10,500 per year.

Shelbyville has been the most profitable store in terms of sales, gross profit, and net profit. The sales have increased over 10% in five years while net profits have averaged 4.51%. Gross profits, too, have been higher than the other stores with a five-year average of 18.56%.

Arcola started business late in calendar 1957. It is almost too soon to tell how stable the business will become. However, sales and profits have risen continually since the opening year.

All stores in total make a picture of slow but solid and continuous growth. For the period 1956-60, sales, gross profits and net profits all rose in total dollars especially when Arcola's opening costs and losses are considered. The purpose of the remainder of this analysis is to question whether the future will allow these trends to continue.

Table V-1

KASKASKIA STORES - COMPARATIVE BALANCE SHEET DATA

END OF FISCAL YEAR 1960

Assets

Account	Kaskaskia Stores*		Industry**
Current Assets			
Cash	$54,926	20.12%	11.42%
Accounts Receivable	0	0	9.92
Inventory[1]	129,161	47.32	30.44
Other[2]	13,222	4.84	3.28
Total Current Assets	197,309	72.28	55.06
Net Fixed Assets	59,462	21.78	34.86
All Other Assets[3]	16,205	5.94	10.08
Total Non-current Assets	75,667	27.72	44.94
Total Assets	272,976	100.00	100.00

*Source: Company records.

**Robert Morris, Associates - 1960 Statement Studies (Philadelphia, Pennsylvania: Robert Morris Associates, 1961), p. 159. These figures represent data received, standardized and compiled by the Robert Morris Associates from 65 supermarket and food store operations having less than $250,000 total assets for 1960. Although Kaskaskia had just over $250,000 assets in 1960, 1959 assets were under $250,000, and it was the writer's opinion that the next comparable bracket of $250,000 to $1,000,000 assets would be less comparable due to 1) more formal organization, 2) greater asset power 3) greater sales, all of which accompany greater numbers of dollars of assets.

[1]Lower of cost or market--items out dated not included.

[2]Represents supplier credit account.

[3]Assets are not operating but represent excess warehouse space rented to other business.

Table V-1--Continued

Liabilities and Net Worth			
Account	Kaskaskia Stores*		Industry**
Current Liabilities			
Banks	0	0	4.61
Trade	27,278	9.92%	19.87
Taxes	9,037	3.31	1.79
Other[4]	38,904	14.25	9.92
Total Current Liabilities	75,019	27.48	36.19
Long Term Debt[5]	49,500	18.13	11.86
Total Debt.[6]	124,519	45.61	48.05
Tangible Net Worth	148,457	54.39	51.95
Total Liabilities & Net Worth	272,976	100.00	100.00

[4]Of this amount, $12,500 is due to the owners for annual bonuses.

[5]Debt is term notes owned by officers.

[6]In addition, the firm owns leases amounting to $6,300 for the next two years with option to extend for up to 10 years at the same rate.

Table V-2

KASKASKIA STORES - COMPARATIVE INCOME STATEMENT

FISCAL YEAR 1960

	Kaskaskia Stores*		Industry**
Net Sales	$1,961,947	100.00%	100.00%
Cost of Sales[7]	1,604,527	81.78	82.41
Gross Profit	357,420	18.22	17.59
Net Other Expenses[8]	300,967	15.34	16.10
Profit Before Taxes	56,453	2.88	1.49
Federal Income Taxes	7,785	.40	.57
Net Profit for Year	48,668	2.48	.92

*Source: Company records.

**Robert Morris Associates, Op. Cit., page 159.

[7]Includes transportation charges and purchase discounts.

[8]Includes $185 non-operating income.

Table V-3

KASKASKIA STORES - COMPARATIVE RATIOS

FISCAL YEAR 1960

	Kaskaskia Stores*	Industry**
Current Ratio	2.63%	1.52%
Net Worth to Fixed Assets	2.49	1.49
Net Worth to Total Debt	1.19	1.08
Receivables Turnover	0	67.16
Inventory Turnover	13.19	18.04
Sales to Fixed Assets (Asset Turnover)	33.00	19.11
Sales to Net Worth	13.21	12.82
Profits to Net Worth	32.77	11.83
Profits to Total Assets	17.83	6.15

*Company records.

**Robert Morris Associates, Op. Cit., page 159.

Table V-4

KASKASKIA STORES - PROFIT CONTRIBUTION STATEMENT

FISCAL YEAR 1960

	Moweaqua		St. Elmo	
Sales	$203,313	100.00%	$311,467	100.00%
Cost of Goods Sold	167,477	82.37	255,809	82.13
Gross Profit	35,836	17.63	55,658	17.87
Controllable Expenses				
Labor	18,493	9.10	25,526	8.20
Operations	6,874	3.38	5,053	1.62
Selling	3,415	1.68	1,755	.56
Total	28,782	14.16	32,334	10.38
Non-Controllable Expenses	5,565	2.74	7,625	2.45
Total All Expenses	34,347	16.90	39,959	12.83
Store Profit Contribution	1,489	.73	15,699	5.04

	Findlay		Shelbyville	
Sales	$247,080	100.00%	$807,940	100.00%
Cost of Goods Sold	203,279	82.27	654,711	81.03
Gross Profit	43,801	17.73	153,229	18.97
Controllable Expenses				
Labor	20,730	8.40	63,582	7.87
Operations	3,320	1.34	11,223	1.39
Selling	1,812	.73	6,172	.76
Total	25,862	10.47	80,977	10.00
Non Controllable Expenses	7,445	3.10	32,950	4.08
Total All Expenses	33,307	13.57	113,927	14.10
Store Profit Contribution	10,494	4.26	39,302	4.87

Table V-4--Continued

	Arcola		All Stores	
Sales	$392,147	100.00%	$1,961,947	100.00%
Cost of Goods Sold	323,251	82.43	1,604,527	81.78
Gross Profit	68,896	17.57	357,420	18.22
Controllable Espenses				
Labor	26,240	6.69	154,571	7.88
Operations	8,688	2.22	35,158	1.79
Selling	3,392	.86	16,546	.84
Total	38,320	9.77	206,275	10.51
Non-controllable Expenses	18,203	4.64	71,788	3.66
Total All Expenses	56,523	14.41	278,063	14.17
Store Profit Contribution	12,373	3.16	79,357	4.05
General Administrative Costs (net)[9]			22,904	1.17
Net Profit Before Taxes			56,453	2.88
Less Federal Taxes			7,785	.40
Net Profit			48,668	2.48
Distributed Profits			32,333	1.65
Net Profit to Retained Earnings			16,335	.83

Source: Company records.

[9]Includes $15,000 salary for chief executive plus income from interest-$422, and warehouse rent-$185.

Table V-5

KASKASKIA STORES - ANNUAL PROFIT CONTRIBUTION

		Fiscal Year				
		1956	1957	1958	1959	1960
Moweaqua						
Sales	$	216,956	232,695	224,227	201,664	203,313
Gross Profit	$	38,004	40,002	38,368	35,071	35,836
	%	17.52	17.19	17.11	17.39	17.63
Net Profit	$	6,892	5,920	6,271	4,019	1,489
	%	3.18	2.54	2.80	1.99	.73
St. Elmo						
Sales	$	280,642	297,556	316,773	312,646	311,467
Gross Profit	$	44,970	49,350	53,312	54,930	55,658
	%	16.02	16.59	16.83	17.57	17.87
Net Profit	$	10,446	13,351	16,027	16,924	15,699
	%	3.72	4.49	5.07	5.41	5.04
Findlay						
Sales	$	200,823	216,081	226,727	239,760	247,080
Gross Profit	$	35,077	37,125	39,364	41,661	43,801
	%	17.47	17.20	17.36	17.38	17.73
Net Profit	$	6,830	7,585	9,484	8,612	10,494
	%	3.41	3.51	4.18	3.59	4.26

Source: Company records.

Table V-5--Continued

	Fiscal Year				
	1956	1957	1958	1959	1960
Shelbyville					
Sales $	731,158	757,429	723,660	755,354	807,940
Gross Profit $	133,957	136,316	131,767	145,783	153,229
%	18.32	18.00	18.21	19.30	18.97
Net Profit $	35,498	33,134	22,161	42,179	39,302
%	4.85	4.38	3.06	5.59	4.87
Arcola					
Sales $		65,705	277,239	319,934	392,147
Gross Profit $		9,908	49,136	55,998	68,896
%		15.10	17.72	17.50	17.57
Net Profit $		(-1,704)	3,760	6,621	12,373
%		(-2.60	1.35	2.07	3.16
All Stores					
Sales $	1,429,579	1,569,366	1,768,676	1,829,358	1,961,947
Gross Profit $	252,008	272,751	311,947	333,442	357,420
%	17.63	17.38	17.64	18.23	18.22
Net Profit $	59,686	58,282	57,703	78,355	79,357
%	4.18	3.72	3.27	4.29	4.05

CHAPTER VI

MARKET DESCRIPTIONS

General Market Area

Geography and Geology

Kaskaskia Stores, Inc. operates Supermarkets in central Illinois with headquarters in Shelbyville. Two other stores, Moweaqua and Findlay, along with Shelbyville are in Shelby County. Arcola is in Douglas County, and St. Elmo is in Fayette County. Although there are variations between towns and areas, these are small for the most part. Therefore, the remainder of this section on the General Market Area shall deal with Shelbyville and Shelby County as a representative of all of the market areas.

Shelbyville lies 88 degrees 44 minutes West Longitude and 39 degrees 24 minutes North Latitude.[1] The weather is mild continental with prevailing southwest winds. The mean annual temperature is 54.2°F. January is the coldest month averaging 27.6°F., and July is the warmest averaging 78.5°. Occasionally, the summer temperatures reach over 100° F. and the winter extremes drop below 0° F.[2]

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[1] Community Data, Shelbyville Chamber of Commerce, 1960, p. 1.

[2] Ibid., p. 3.

The average annual rainfall is 40.35 inches and the average annual snowfall is 14.00 inches. The mean relative humidity is 67%.[1]

During the Pennsylvania period of land formation, Illinois was covered by dense swamps of ferns and green vegetation. As this period drew to a close, the dense growths left numerous deposits of coal and some oil.[2]

After the Pennsylvania Period, the land was subject to several glaciations from the north. The last of these, called the Wisconsin Glaciation, stopped where Shelbyville now is, leaving a high moraine known as the Shelbyville Moraine. It stretches in a snake-like ridge from north west to south east of Shelbyville and is several miles wide in places.[3] The effect of the glaciation was to level the land. Consequently, the land north of Shelbyville tends to be quite level and is covered with black loam deposited by winds as loess. South of the moraine is more rolling and hilly land covered with less loam and more hard yellow clay. Prior to the introduction of high quality fertilizers, only the black loam was highly productive of farm crops. Today, suitable fertilizers have been developed to make the clay almost as productive as the loam.

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[1]Ibid., p. 3.

[2]Encyclopedia Americana, Volume 14, p. 680.

[3]John W. Foster, "Major Aquifiers in Glacial Drift near Mattoon, Illinois," Illinois Survey of Geology, Bulletin 95, 1955.

Economic Base

As was just stated, the area is well suited to agricultural production. The primary crops are field corn, soy beans, and wheat. In addition, some rye, barley, oats, clover, and hay is grown. Sileage is common, especially in years when the rainfall is not sufficient to make full corn ears. Many farmers supplement their field crops with livestock. There is little dairy industry, but feeder calves, hogs, sheep, and some poultry are kept.

Four primary agricultural trends have been occurring during the past ten years. (1) Farms are becoming larger, (2) people are leaving the farms, (3) there is an increasing use of fertilizer, and (4) there is increased mechanization.

According to the figures in Table VI-1, compiled from the U.S. Census of Agriculture, 1959, Shelby County has 494,080 acres. Of this, 88.8% is used for 2,432 farms of 180.4 acres each. During the period 1954 to 1959, the total number of farms decreased 11% while the average farm size rose 12%. A small amount of land was taken out of agricultural use to increase the size of cities or to reflect uneconomical production.

On the other hand, the farm population decreased between 1954 and 1959. Farmers who owned their farms and lived on them have decreased 17%, and those working off the farm (for at least 100 days per year) and residing on the farm have increased by 11%. Although per farm income has

Table VI-1

SHELBY COUNTY ILLINOIS AGRICULTURAL STATISTICS

	1954	1959	Change
Size and population			
Acerage	494,080	494,080	0
Number of farms	2,743	2,432	-11%
Total land in farms acres	442,780	438,733	1%
percent	89.7	88.8	1%
Average size of farm acres	161.4	180.4	+12%
Value of land and buildings			
Per farm	$34,777.00	$54,586.00	+57%
Per acre	$203.24	$285.20	+40%
No. of farm owners living on land	1,200	997	+17%
Workers living on farm, working off farm over 100 days	505	560	+11%
Production			
Value of all farm products-county	$11,903,356.00	$21,666,304.00	+81%
Average per farm	$9,039.00	$4,332.00	+108%
Value of all crops county	$6,347,412.00	$13,415,393.00	+111%
Tons of fertilizer applied-county	14,941	21,357	+45%
Mechanization			
Total tractors	4,202	4,950	+18%
Total combines	1,149	1,259	+10%
Total corn pickers	1,469	1,565	+70%
Total automobiles	2,600	2,567	-01%

Source: U.S. Census of Agriculture, 1959, Part 12, Illinois, U.S. Dept. of Commerce, Bureau of Census.

increased, the total number of autos owned by farmers has decreased during the period. Finally, the 1950 rural population of the county was 19,972, or 1,389 persons more then the 1960 population of 18,583. This is a decline of 7% during the ten year period.[1]

Coupled with the trend to larger farms which are worked by fewer people has been the trend toward more intensive fertilization and greater mechanization. Proof of this is shown by a 45% increase in the tons of applied fertilizer used during the period 1954-1959. Also tractors increased by 18%, combines by 10%, and corn pickers by 7%. The resulting crop production increased in value by 111%, partly due to higher prices and partly due to increased crops. All farm products increased in value by 81%. Land and farm assets in 1959 were valued at 57% more than their 1954 value. These items all tend to point up the migration to the city by the small marginal farmer, and the high fixed-cost, mechanized farm industry, conducted on a business basis, which is appearing in the present years.

Although the basis for most income is agriculture, there are some industrial and other incomes. These will be discussed more fully in the analysis of each market city, but, in general, these sources are secondary to agriculture at present. Shelbyville has three primary manufacturers and

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[1] U.S. Census of Population, 1960. PC (1) 15A.

numerous secondary enterprises. All of these are small. St. Elmo has enjoyed oil drilling prosperity. Arcola has some oil and large industry nearby. Findlay and Moweaqua have no industry but serve as homesites for industrial workers.

Population Characteristics

Reference is again made to Shelby County to note some further characteristics which are assumed similar in all counties. According to the 1960 Census of Population females exceed males by 5.2%. Of the males who exceed 14 years of age, 72.8% are married, 5% are widowed, and 2% are separated or divorced. Women of 14 years or older are 69% married, 13% widowed, and 2% separated or divorced. Of the total population of 23,404, 99.6% (23,321) live in households. The average population of each of the 7,545 households is 3.09 persons.

It is interesting to note that there are only three Negroes in Shelbyville and none in any other city in which Kaskaskia has a store. Also there are almost no minority races in any city except Arcola which has a settlement of Amish nearby. In most cities, Negroes are not permitted in town after sun down.[1]

The average income, according to the 1960 Census,

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[1]Author's personal knowledge of the town's social policy.

for families having children under 18 years of age is $4,699 in Shelby County, $4,668 in Fayette County, and $5,807 in Douglas County (where there is considerable industry). In Shelby County, the mean family income for all families is $4,151, but for Shelbyville residents, the mean income is $4,826 per family, well above county average. City people also tend to have higher formal education levels as well as income levels as indicated by an All-Shelby-County average of 8.9 years per person as opposed to a Shelbyville average of 9.6 years.

Food consumption figures for 1960 are estimated at $288.85 per capita.[1] Thus on the average, the normal household would spend approximately $893.00 annually on retail food. Of course these figures are very broad and general. The normal household expenditure appears low because of many retired persons who have only one or two persons per household, and because no allowance is made for restaurant dining.

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[1]The author estimates from retail sales tax collections in the downstate area that the population expenditure for food in 1960 was $288.85, calculated:

Total downstate tax collections-food	$42,048,682
2% service adjustment =	42,906,818
÷ 3% collection rate = sales	1,430,227,266
1960 downstate population	4,951,433
Per Capita purchases	$288.85

Sources: Tax Liability Incurred Fiscal Year July, 1960 To June 30, 1961, State of Illinois, Department of Revenue, Springfield, Illinois, and U.S. Census of Population, 1960.

Social Aspects[1]

This paper is not intended to be a sociological description of rural Illinois or of small Illinois cities, nor is the writer qualified to make such an analysis. However, fundamental to business in this area is a general understanding of the social organizations of the area. The most basic social unit is the family, and family ties are strong. Also, families live in homes which they own, not in apartments. They tend to eat together and do things together. The effect of a strong home unit to a retail food market is that purchases for the home are made by one person for the group. That is, the homemaker purchases most of the food. However, she usually does this on the basis of what will be appealing to all. Since tastes vary, there will only be a few dishes which each member will enjoy. Therefore, the tendency is to restrict the possible combinations of food menus and thus make selection more difficult.

Perhaps the second most important social organization in a small town is the school, because everyone has a son or daughter, relative, or neighbor who attends school. The high

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[1]Discussion based on author's interpretation of Arthur J. Vidich and Joseph Bensman, Small Town and Mass Society (Garden City, New York: Doubleday and Company, Inc., 1960) and an unpublished manuscript with the same title, Gordon Hoke, Michigan State University, 1961. The discussion is limited by the applicability of the concepts of these works to the specific markets being studied.

school athletic teams dominate social discussion and much of the school budget, often to the detriment of academic achievement. Further, since the school is financed mostly by taxes on real estate, farm owners are primarily in control of the School Board and the County Board of Supervisors. The effect has been, in many cases, to keep smaller town low in academic development but high in athletic reputation. This is especially true in many of the towns where rural schools have been consolidated into the city schools.

The church is another strong social unit where persons meet, not only to worship, but to advance their social desires. This may be "social climbing" but more generally revolves around the need to be "socially acceptable" by being pious and respectable church-goers. Also, the small town has men's and ladies' service clubs, golf and country clubs, veterans associations, and all the usual social meeting organizations.

Nevertheless, in many small towns, rural dominance still persists. One of Riesman's issues, the farmer as the "inner directed" man, bears directly on this question. If the inner-directedness stems from ignorance, lack of knowledge, or stubborn resistance to change, and if this rural person continues to control the small community, what is the future of the small town?[1] "We may sum up much that is

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[1]Hoke, op. cit., p. 19.

significant about inner direction by saying that, in a society where it is dominant, its tendency is to protect the individual against the others at the price of leaving him vulnerable to himself."[1] Whether the small rural community will be left prostrate in the rush to large cities or whether it will adapt to new and changing methods of survival will be dependent on the city itself. Shelby County cities face this problem.

Specific Markets

Research Technique

Data were obtained for specific market areas via the following forms and manners:

Population Data	-	U.S. Census of Population, 1960 Questionnaires
Location Data	-	State Map
Economic Data	-	Questionnaires Personal Letters Personal Observation of Author
Retail Food Outlets		Corporate Records Retail Sales Tax Collection Analysis Corporate Management Estimates
Market Outlook	-	Questionnaires Selected Published Area Data

Questionnaires were sent to each city to the following persons:

1. Shelbyville - Secretary, Chamber of Commerce
2. Shelbyville - Cashier, Shelby Loan and Trust Co.

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[1]David Riesman, The Lonely Crowd (New Haven, Conn: Yale University Press, 1961), p. 123.

3. Shelbyville - Cashier, Shelby County State Bank
4. Moweaqua - President, Ayars State Bank
5. Findlay - Manager, Kaskaskia Supermarket
6. St. Elmo - Editor, St. Elmo Banner
7. Arcola - Secretary, Chamber of Commerce.

Responses were received from all but numbers 2, 6, and 7. (A copy of the questionnaire is enclosed in Appendix B.) The questionnaire asked for personal estimates of 1) past and future population trends, and 2) expected future growth and industrial expansion. Since the questionnaire dealt with different markets, no correlation was attempted between markets. No investigation as to why responses were not given was made.

In addition, personal letters were sent to officials of each company which was located in or near the cities involved and which constituted, in the writer's opinion, a major source of employment or income to the city. (A list of those companies contacted is included in Appendix B.) The three standard questions asked were, "with respect to your local facility, what are the future prospects for

1. Stability of employment
2. Growth or cutbacks of production
3. General business activity in terms of 3-5 and 10 plus years?"

Responses to letters were good. Only one firm failed to respond. This was the Oliver Corporation which is undergoing merger reorganization with the White Motor Company.

In the case of Shelbyville where a particularly novel and large change is under consideration, additional personal letters were written to governmental sources to obtain information. The project proposed is a new federal dam on Kaskaskia River. (Letters concerning this subject are listed in Appendix B.) Other governmental data for all markets was obtained from the State of Illinois and concerned primarily retail sales tax collections for the state.

Moweaqua Market

City Factors

Location and Population.--Moweaqua is located on U.S. Route 51, 17 miles south of Decatur. An east-west route of secondary importance connects Moweaqua with the north-south route, Illinois 128. There are no other routes of importance. The solo rail line is the Illinois Central Railroad running from Decatur to St. Louis. The market for food sales encompasses the rural area as well as the city. The local bank cashier estimates that the effective trade population is 2,000 persons.[1] The author's estimates from retail sales tax collections data indicate an effective food market of 2,400 persons in 1960.[2] The bank further feels that there is little unemployment and that at least 200 persons live in Moweaqua and work in Decatur. The reasons given for Decatur employment are wages, hours, and fringe benefits superior to farm employment. However, the

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[1]Questionnaire, H. B. Ayars, President, Ayars State Bank, March 1, 1962.

[2]See Appendix B.

bank hastens to note that there is a rising demand for farm laborers due to the drain on labor to Decatur.

Sources of Income.--The city has no industry except for an elevator which buys and stores local crops. Most of the income comes from farming and from residents who live in Moweaqua and work in Decatur, an industrialized area. Decatur boasts the manufacturing operations of A. E. Staley (corn and soy bean products), Caterpillar Tractor (road graders and allied lines), Mississippi Valley Steel (fabrication), Macon Arms (government arms production), U.S. Signal Depot (warehouse and repair of signal items for U.S. Army) and General Electric (plastics).

Moweaqua has grown in population. The census figures are:

Year	Population
1940	1,366
1950	1,475
1960	1,614

The annual incomes are estimated by the bank at:

Average person	$1,200
Industrial family	4,500
Professional family	15,000
Agricultural family	5,000

Retail Food Outlets

Kaskaskia and its competitor are the only supermarkets in Moweaqua. Kaskaskia's store, as seen in Table VI-2 is smaller, has poorer parking, is older, is open fewer hours and has less business than does its competitor. A few

Table VI-2

MOWEAQUA MARKET - FOOD OUTLETS

	Kaskaskia	Competitor A	Others
Store size-total sq. ft.	3040	3200	800
Size selling floor sq. ft.	2600	3000	700
Number of check outs	2	2	1
Parking spaces	12	20	?
Location of parking area	Street	On premise	Street
Estimated annual sales volume dollar	200,000	400,000	50,000
Estimated share of market	31%	61%	8%
Purchasing affiliation	Voluntary	Voluntary	?
Ownership	Chain	Local	Local
Store location	Downtown	Downtown	Neighborhood
Store hours	7:30-6:00	7:30-8:30	?
Estimated age of building	40 years?	4 years	?

Source: Corporate records and estimates.

neighborhood stores cling on to small bits of business.

Besides being in a poor facility, the Kaskaskia store has experienced greater competition than have the other firm stores. In 1958, the competitors relocated in a new building, and drew an immediate 10% of the market which was formerly Kaskaskia's. The new competitive store is operated by two partners who live in Moweaqua. They stay open evenings. Kaskaskia has considered remaining open in the evenings but to date has decided that the added expense of personnel and utilities would not be profitable. In addition, Decatur draws some business from the Moweaqua residents who are employed there.

The store has suffered numerous personnel problems starting with poor management and followed by problems in the meat department, on the floor and at the checkout. Today, however, the store has its best team of personnel, and this factor should aid its future development.

Market Outlook

Returning to the questionnaire from the bank, the writer will summarize the cashier's opinions of the community's future. Decatur has grown rapidly to the east, west, and north. Building southward has been strained because of the land holdings of a wealthy family. The recent sale of these lands will probably start the southward expansion, moving Decatur closer and closer toward Moweaqua. Although Moweaqua does not expect to have any industry (nor is it actively seeking it), it does hope to become a suburban community for Decatur employees. Some thoughts will be mentioned in the next chapter concerning Kaskaskia's potential with this outlook.

St. Elmo Market

City Factors

Location and Population.--St. Elmo is located in Fayette County, south of Shelbyville. It is on U.S. Route 40 which connects Vandalia and Effingham, two cities of about 10,000 population. The Pennsylvania and the Chicago and Eastern Illinois Railroads serve the community.

St. Elmo's population has been decreasing. The census figures are:

Year	Populations
1940	2,290
1950	1,716
1960	1,503

The author estimates that the effective food purchasing population was 2,300 in 1960.[1] Whether or not the rate of decline in the effective food purchasing market has been the same as the city decline is not known. However, it is probable to assume that the city decline has been faster. The reasons will be listed in the following section.

Sources of Income.--The population decline has been due to a decline in employment. For about 25 years, St. Elmo

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[1]See Appendix B

has been a center of oil production operations.[1] The Humble Oil and Refining Company drilled the discovery well and started the London Oil Field. A refinery was constructed, and during the Second World War, the town bustled with oil money. Since the war, the refinery has been closed, dismantled and shipped away; the field has become less productive, and no new wells are being drilled.

Three parties prosper from a successful oil field. First, the drilling company (Humble) which has drillers, tappers, pumpers, and maintenance people to service the wells. Secondly, oil field service companies spring up to do contract drilling, haul supplies, haul bulk crude, and supplement the drillers needs. Lastly, the landowner traditionally receives one-eighth of the crude sales.

As drilling stops, part of the service companies and part of the drilling firm's personnel are no longer needed. As the wells begin to play-out, fewer and fewer workers are needed. Therefore, as the wells near St. Elmo are drying up, the population has continued to decline.

Agriculture, the only other source of income, has been developing, although not in numbers of people. The farms have become productive and valuable due to high quality fertilization.

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[1]Letter to Condon McKay, Public Relations Department, Humble Oil and Refining Company, Tulsa, Oklahoma, April 2, 1962.

Retail Food Outlets

Three markets do almost 100% of all business done in the city of St. Elmo. These are compared in Table VI-3. The table indicates that all businesses operate in older buildings with regular hours. Two are connected with voluntary warehouses and two are home owned. Kaskaskia has almost half of the sales in the town. This position has been achieved over a period of years through good management and consistent sales effort.

Market Outlook

The economic outlook for St. Elmo is not bright. The following quotation explains the future in oil income:

> About 1952 our company (Humble Oil) initiated an extensive waterflood program in the London-Field aimed at prolonging the producing life of the field and increasing ultimate recovery. It is estimated that 1962-63 will be the peak production years resulting from this secondary recovery program and that production will start decreasing in the years following. Reduced production over a several year period will, of course, be accompanied by a reduction in field personnel needed for the operation. Therefore, we believe it will be reasonable to expect that during the next 3 to 5 year period there will be a net decrease in our production from the current rate and probably some decrease in the number of field employees needed to maintain an efficient operation. It is difficult to appraise the '10-year plus' period mentioned in your letter, except that the influence of an expected decreasing production rate will be a continuing one.
>
> The expected decreasing production rate in the London Field will, of course, also affect the economic influence of the oil field service companies and local land owners mentioned above.[1]

The influence of a declining population and declining oil income gives the total St. Elmo economic outlook a dark

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[1] Ibid.

Table VI-3

ST. ELMO MARKET - FOOD OUTLETS

	Kaskaskia	Competitor A	Competitor B
Store size-total sq. ft.	2,400	2,480	1,650
Size selling floor sq. ft.	2,250	2,250	1,500
Number of check-outs	2	2	1
Parking spaces	15	15	6
Location of parking	Street	Street	Street
Estimated annual sales volume dollar	310,000	228,000	128,000
Estimated share of market	47%	34%	19%
Purchasing affiliation	Voluntary	Voluntary	Independent
Ownership	Chain	Local	Local
Store location	Downtown	Downtown	Edge of town
Store hours	7:30-6:30	7:30-6:30	7:30-6:30
Estimated age of building	40 years ?	35 years ?	25 years ?

Source: Corporate records and estimates.

cast! Certainly the town is not a probable business "bonanza" spot.

Kaskaskia has realized the inadaquacies of its present location in the town in terms of size and convenience. With a vivid memory of the Moweaqua losses to a new building, the management has sought out, purchased, and begun clearing for a new market. Preliminary plans have been drawn but no construction has begun. Whether or not the business should proceed with its plans in this town will be querried in the next chapter.

Findlay Market

City Factors

Findlay is a small agricultural village isolated on four sides by black land. It is located 3 miles east of route Illinois 128, and ten miles north of Shelbyville. The Chicago and Eastern Illinois Railroad passes through the town.

Findlay has gradually increased its population from 688 in 1940, to 680 in 1950, to 759 in 1960.[1] The author estimates that almost 1,000 people purchase groceries in the town.[2] Of these 759 persons, one leading merchant estimates that 30% are retired, 25% are teenagers, and of the total

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[1] U.S. Census of Population, 1960.

[2] See Appendix B.

employable population, 75% are employed out of town.[1] This tends to indicate that the primary purpose for Findlay's existence is to provide homes for elderly retired persons (mostly farmers), and Decatur factory workers. Therefore, there is great diversity in income sizes and in demands for food. In addition, Findlay prospers from excellent soil and high agricultural production.

Retail Food Outlets

In 1960, the author estimates that the Kaskaskia store held over 90% of the retail food market.[2] The remaining sales went to marginal competitors. The primary competition which the store faces is in Shelbyville, where there is greater market selection, and Decatur, where many Findlay residents are employed.

Market Outlook

Findlay has a bright outlook despite its small size. Primarily, this is due to its desirable small town climate which some factory workers enjoy and the proposed federal dam project at Shelbyville which, if built, will put a part of the lake formed in close proximity to Findlay.[3] However, the town lacks a bank, a dentist, and an implement and automobile dealer.

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[1]Questionnaire, Mr. Merle Minor, Manager, Kaskaskia Super Market, March 1, 1962.

[2]See Appendix B.

[3]See Shelbyville Market Outlook for discussion of proposed federal dam.

Shelbyville Market

City Factors

Location and Population.--Shelbyville is located on routes Illinois 128 north and south and Illinois 32 and 16 east and west. It is the county seat of Shelby County. The New York Central Railroad passes through east and west. The Chicago and Eastern Illinois Railroad serves the city north and south. The east edge of the city is bounded by the Kaskaskia River.

The 1960 census lists the population as follows:

Year	Population
1940	4,092
1950	4,462
1960	4,821

The effective food market is estimated by the author at 8,420 persons.[1]

Sources of Income.--Like the previously mentioned cities, Shelbyville is highly dependent upon agriculture. However, the city does have some industry. The Oliver Corporation manufactures hay bailers and cotton pickers in the city. Also there is a hair pin manufacturer and a cheese processing plant. Some Shelbyville residents are employed in industries in Decatur, Mattoon, and Pana. In addition, there are numerous small machine shops, implement shops, and several construction firms. The county employees also add

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[1] See Appendix B.

to the purchasing public.

Retail Food Outlets

There are at least four supermarkets of major volume in the town. These stores account for over 80% of the total sales which are estimated at about $2,360,000 annually. At least 4 neighborhood markets split the remaining $450,000 of sales. The four largest markets are described in Table VI-4. The Kaskaskia store holds an edge in sales and market percentage. The firm has been wise in its decision to locate in a modern facility with on premise parking. Here, the business has been capable of offering greater convenience, better variety, and more efficiency.

Market Outlook

The outlook for Shelbyville is bright. The largest factor of economic potential is a proposed federal dam project which will impound the Kaskaskia River at Shelbyville. The project is estimated to have a total cost of nearly $30 million and is to make a lake some 35 miles in length. The purpose of the dam is to control flooding, to allow control over navigational levels on the Mississippi, to create a water supply, and to promote recreation and conservation development.[1]

The dam is one of two slated to be built on the

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[1]Letter and attached documents from Alfred J. D'Arezzo, Colonel, U.S. Army Engineers, District Engineer, Army Corps of Engineers, St. Louis, Mo., March 7, 1962.

Table VI-4

SHELBYVILLE MARKET - FOOD OUTLETS

	Kaskaskia	Competitor A	Competitor B	Competitor C
Store size total sq. ft.	9,000	6,000	2,600	2,600
Size selling floor-sq. ft.	6,000	5,000	2,200	2,200
Number of check-outs	4	2	2	2
Parking spaces	65	30	10	10
Location of parking area	On Premise	On Premise	Street	Street
Estimated annual sales volume dol.	710,000	492,000	492,000	216,000
Estimated share of market	31%	21%	21%	9%
Purchasing affiliation	Voluntary	Voluntary	Chain	Inde-pendent
Ownership	Local	Local	Chain	Local
Store location	Edge of Town	Downtown	Downtown	Edge of Town
Store hours	7:30-6:30	7:30-6:30	7:30-6:30	7:30-6:30
Estimated age of building	8 years	1 year	20 years	20 years

Kaskaskia. The other will be located at Carlyle, Illinois, about 100 miles downstream. The Carlyle Dam is now under construction and will be completed in 3 to 5 years. The Shelbyville Dam is not yet under construction but is slated to start in the spring of 1963.[1] However, this date is contingent upon congressional appropriation of the necessary funds. One bank contacted suggested that this appropriation would probably not be made in 1962 but would come in perhaps "four or five years."[2] However, this is perhaps a pessimistic view because of two factors.

First, some money for construction is already available. The Shelbyville Chamber of Commerce indicates that "substantial sums, sufficient to begin the first stages of the project have been appropriated."[3] In a personal letter to the author dated March 1, 1961, Honorable Peter F. Mack, Jr., Congressman from Illinois, stated that approximately $160,000 of engineering funds will be left over and will be used to begin construction in 1963. Congressman Mack feels certain that construction funds will be available as needed. Once funds have been expended to start construction, there will undoubtedly be completion funds forthcoming.

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[1] _Ibid_.

[2] Personal letter and questionnaire from Mr. W. F. Archele, Cashier, Shelby County State Bank, Shelbyville, Illinois, March 14, 1962.

[3] Fred W. Simmering, _Economic Outlook for Shelby County, 1962_ (Shelbyville, Illinois: Shelbyville Chamber of Commerce, 1962), p. 1.

Secondly, the Shelbyville Dam is almost a necessity to make the Carlyle project of value to Mississippi navigation. Because of the engineering pecularities of the river and the two dams and reservoirs, it seems probable to the author, that since Carlyle is now under construction, the Shelbyville Dam will follow quickly in order to utilize fully the possible value of the system of dams.

The economic impact of the dam will be many fold. The first effect will be the concentration of construction funds in the Shelbyville area. Next will follow greatly expanded recreational interest due to such a vast body of water. A third source of income will be improved crops due to a decline in flood losses. Lastly, some industry may be attracted due to a large available water supply.

Besides the dam, other economic factors seem to point to prosperity. The sick Oliver Corporation has recently been purchased by White Motor Company. Since the purchase, the Shelbyville Hay Baler Plant has been reopened and has been given new production quotas of balers, cotton pickers, and several new items.[1] A letter dated March 25, 1962, from Mr. E. K. Huffer, General Manager of Dairy Division of Hygrade Food Products Corporation indicates that their Shelbyville plant has experienced stable employment over the past few years and that they anticipate a modest but

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[1]"White Motor: 'A' for Agility," Forbes (December 1, 1961), pp. 19-23.

continuing growth during the next decade. Also, they expect to modernize their operation and add new lines of production.

Shelbyville's other large production facility is the STA-RITE Ginnie-Lou Company, manufacturers of hairpins, bobbie pins, and ladies specialties. They, too, expect stable and continuing employment with modest internal growth and gradual employment increases.[1] Therefore, it would appear that Shelbyville should prosper in general, over the next decade.

Arcola Market

City Factors

Location and Population.--Arcola is located on U.S. Route 45, 7 miles south of Tuscola and 15 miles north of Mattoon. The Illinois Central Railroad splits the city paralleling the highway. A secondary road, Illinois 133, connects the town with points to the east and west.

Arcola's latest population figures are:

Year	Population
1940	1,837
1950	1,700
1960	2,273

The author estimates that in 1960, 3,082 persons were supported by food purchases in Arcola.[2]

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[1]Letter from Mr. G. Noel Bolinger, President, STA-RITE Ginny Lou, Inc., March 23, 1962.

[2]See Appendix B.

<u>Sources of Income</u>.--Arcola has always been an agricultural community. In addition to the regular field crops of Illinois, Arcola has been a center for broom corn production and some manufacture. Today several warehouses and agents are active in broom corn marketing and a trade journal is published for the industry in Arcola.

Additional income has come from oil fields discovered just west and south of the city. However, the field is small and the largest effect on the economy has been landowner royalties. Most dynamic of the past decade has been industrial expansion. A National Distillers and Chemical Corporation Division, United States Industrial Chemicals Corporation, constructed a multi-million dollar petro-chemical plant in 1953. The plant is located south of Tuscola and about 7 miles from Arcola. The plant employs hundreds of highly skilled workers from the surrounding area.

Retail Food Outlets

As shown in Table VI-5, the author estimates that 93% of the food sales go to three stores. The Kaskaskia store has about 45% of the market and this has increased during each of the past three years. Two other stores account for about 48% of the total sales. The Kaskaskia store benefited from a superior physical plant, good on-premise parking, and evening business hours.

Market Outlook

Arcola should continue to have modest growth and

Table VI-5

ARCOLA MARKET - FOOD OUTLETS

	Kaskaskia	Competitor A	Competitor B
Store size-total sq. ft.	6,000	3,750	1,600
Size selling floor sq. ft.	5,000	3,000	1,500
Number of checkouts	3	2	1
Parking spaces	25	10	10
Location of parking	On premise	Street	Street
Estimated annual sales volume dollar	390,000	300,000	110,000
Estimated share of market	45%	35%	13%
Purchasing affiliation	Voluntary	Voluntary	Independent
Ownership	Chain	Local	Local
Store location	Highway	Business District	Business District
Store hours	7:30-8:30	7:30-6:30	7:30-6:30
Estimated age of building	3 years	20 years	30 years

Source: Corporate records and estimates.

stable income. Agriculture will probably remain a primary source of income. There seem to be few prospects of oil field expansion. However, the chemical plant in Tuscola is expected to continue to employ highly skilled workers from the surrounding area. They report:

> We have an investment per employee of about $100,000 in a highly automated plant. . . . Any cutback, with this type of capital investment, is highly unlikely as the overhead would have to be absorbed in the other products.
>
> We do expect some growth in the upgrading of our end products, or possible new production, should such become favorable and absorb present overheads.
>
> We anticipate a fairly stable operation in the next three to five years with considerable emphasis on improvement within our present operations in distribution costs, packaging, raw material utilization, and maintenance costs.[1]

Therefore, with the past rise in population and the possibility of more employment and possibly new industry related to that already present, it appears as though the town will continue to prosper.

Summary - Chapter VI

Kaskaskia Stores are located in small agricultural communities where markets are isolated and incomes are based on either farming or out-of-town industry. In St. Elmo, Findlay, Shelbyville, and Arcola, Kaskaskia supermarkets are dominant. In Moweaqua, the Kaskaskia store lacks sales and

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[1] Letter from Mr. Alex Stevenson, Plant Controller, United States Industrial Chemicals, March 26, 1962.

profits to be dominant. All city markets expect a bright future except St. Elmo which has had declining populations. Paradoxically, Kaskaskia is anticipating building a new building and relocating in St. Elmo. In addition, the Shelbyville market has a particularly interesting and bright future due to a proposed federal dam project.

CHAPTER VII

SALES AND PROFIT GOALS

Method

This chapter states possible goals which the firm might logically seek to attain. These are in terms of sales goals and profit goals. The specific numbers of dollars suggested are, in the author's opinion, realistic and possible barring a major catastrophy not now predictable. No attempt is made to set theoretical goals or "maximum capacity goals" as are sometimes used in setting standard cost goals.

Each store is analyzed seperately. Previously made comments as to the store's earning situation, market status, and market outlook are brought to relevance against each other and against mathematically projected trends. In some cases, these factors are quantified. In other cases, only words are used to describe the probable effect of a market force. In both cases, the writer's judgment interprets the available information. Therefore, the difference between verbal shading of a sales or profit trend does not differ greatly in value from an estimated force which is given a dollar value for purpose of calculation.

The data are first projected on a straight line basis by use of the linear equation $Y' = A + Bx$.[1] Then the data are fitted to the projected line to determine how well they match the trend line. Next, the previously mentioned market forces are related to the trend. All data of corporate nature come from the company's records and are rounded to the nearest thousand dollars. Market share data are computed from documents of tax receipts on retail food sales, Illinois, Department of Revenue.

Moweaqua
(Thousands of Dollars)

			Projection
Year	Actual Sales	Share of Market	Sales Trend
1956	$ 217	40%	
1957	233	39%	
1958	224	40%	
1959	202	29%	$202
1960	203	29%	206
1962			213
1963			217
1965			225
1970			243

(Annual Incremental Increase per Trend: $3,650)

The Kaskaskia outlet in Moweaqua met new competition in the latter part of 1958. This competition reduced Kaskaskia Store sales by about $30,000 per year. The above trend

[1] John E. Freund and Frank E. Williams, Modern Business Statistics (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1958), pp. 293-98.

is calculated as if the trend prior to 1959 could be continued after 1959 on a base of the 1959 low of $202,000. In other words, the annual incremental sales increase prior to 1959 was $3,650. The trend assumes that this increase can be continued after 1959, except that the base annual sales is $30,000 less than the 1958 base.

The writer admits that this technique is highly speculative and questionable. However, it can be substantiated in part by realizing that the Kaskaskia trend in Moweaqua is, in fact, two curves, one prior to the opening of the new store and one after. Since, in 1960, Kaskaskia sales rose slightly, it would seem that the damage done by the competition is in the magnitude of $30,000, and that Kaskaskia's road is level or upward from that point. The other alternative is to compute the trend to include all five years which so distorts the trend as to indicate that for the next decade, sales will continually decline. The writer discards this later alternative because of the trend reversal shown in 1960. Therefore, the trend used is that trend present prior to the new competition, $3,650 per year.

This is a pessimistic outlook indeed. First, the increase increment was calculated by including 1958 which included part of the drop due to the new competitor. Secondly, this trend concedes a total $30,000 loss to the competition. As the trend indicates, the store would require until after 1965 to again reach its 1958 level.

Deviations and Judgments

The store is not restricted by the inability to sell more than $200,000 of groceries. It has sold up to $233,000. The key to profits seems to be a sales campaign, rather than a cost-cutting campaign. During the five-year period, gross profit remained at a respectable 17.4% and expenses have not risen rapidly in absolute terms. Dollars for labor have declined, non-controllable expenses have declined, and utilities and repairs have advanced slowly to reflect new refrigerated equipment. This is not to say, however, that previous expense levels are desirable. Findlay and Moweaqua are comparable in sales volume. Yet, in 1960, Moweaqua utility costs were over $3,000 while Findlay's barely exceeded $1,600. Similarly, Findlay had a total repair bill of $52 while Moweaqua expended over $1,800. A reduction of these costs would certainly be of value. In addition, Moweaqua had the lowest turnover of inventory of any Kaskaskia Store in 1960, 8.9 times.[1]

Considering the annual growth rate of $3,600 as the trend indicates and the $30,000 loss to new competition, and considering the expected population increased noted in the section on Market Outlook, the author feels that the Moweaqua store should seek to increase sales by at least $6,000 annually. In addition, costs should be held to

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[1]See Appendix A.

their present levels at maximum, and a definite attempt should be made to reduce utilities and repair charges by at least 10%. If this were possible, an additional net profit could be had in 1962 of:

Sales	\$12,000 x 17.4%	\$2,088
Utility Saving	3,000 @ 10 %	300
Repair Saving	1,800 @ 10%	180
Total Profit Increase		\$2,568

To do this, the store must adopt a definite program. Cost control should be handled by a budget. Sales should be promoted by a better sales effort and better pricing mix to maintain gross. Since the store cannot compete on the basis of better convenience, it must establish an image of better quality, lower price, more friendliness or a combination of these. Friendliness costs nothing. Better quality is recommended as a goal for the meat department.

Definite sales emphasis may be gained through construction of a lower price image. The writer does not suggest an across-the-board price reduction, but rather the everyday low price merchandising of a few items who's prices are generally recognized and which are candidates for most homes. By picking items which are universally known for value and price, a low price will aid in establishing a low-price image which should draw traffic. The losses on these items must be made on other high-margin items, not by raising their prices but by merchandising them better and selling more of them.

A sales program to boost sales by at least $6,000 yearly figured on a per capita basis of $290 per person (the author previously estimated a per capita expenditure of $288.85) would mean that about 21 persons or seven families would have to be attracted. Likewise, this would mean an increase in weekly sales to average $115 per week. In the author's opinion, this is a modest and attainable sales figure which should be planned for. As sales progress, undoubtedly a revision will be necessary to reflect new events.

St. Elmo

(Thousands of Dollars)

Projection			
Year	Actual Sales	Share of Market	Sales Trend
1956	$281	48%	$288
1957	298	48%	296
1958	317	55%	304
1959	313	47%	312
1960	311	47%	319
1962			335
1963			342
1965			358
1970			396

(Annual Incremental Increase per Trend: $7,690)

The trend indicates an annual sales increase which averages $7,690. However, when compared with the actual sales figures, the trend fails to indicate the leveling tendency which occurred between 1958 and 1960. It is the author's opinion, and that of management, that this tendency is due to the declining population previously cited and the capacity limits of the store's physical plant.

The projection also shows that Kaskaskia's share of the St. Elmo market has remained around 48% for the past five years despite excellent profit increases (as shown in the previous section on Financial Evaluation). Management's observation of an inadequate physical plant has prompted the mentioned new store which has been approved by the directors. It is their opinion that an improved building will enable them to:

1. Gain more business from town
2. Extend the St. Elmo market area
3. Sell a wider variety, hence more goods to each customer
4. Persuade competition not to construct a new store in St. Elmo.

Deviations and Judgments

In the light of a declining population, a declining economic base due to reduced oil production, the limited facilities of the Kaskaskia store, and the already leveling sales tendency, it is the author's opinion that a continuation of this trend of $7,700 sales increase would be a goal which will be challenging to the store. If the total market remains at $666,000,[1] then an annual increase of $7,700 would allow the store to capture 50% of the market in just under two years. In 10 years, the firm would have almost 60%.

However, the store must be careful to keep expenses and sales in balance. Because the store is reaching its maximum level of sales capacity due to physical limitations, the addition of more sales dollars through lower prices or greater sales effort might result in reduced total profits.

This goal would not be desirable with a new building. Presently, the store occupies 2,400 square feet. The proposed new building is 5,040 square feet. The present store has 15 parking spaces on the street. The proposed building has over 30 spaces of on-premise parking.

The situation is similar to that which Kaskaskia faced in Moweaqua where the competitors relocated in a new building. Moweaqua's population in 1960 was 1,614 persons, and St. Elmo had 1,503 persons. The new Moweaqua store claimed an immediate increase of 10% of the market. If this were true in St. Elmo, Kaskaskia could expect a sales increase of about $65,000 annually or over $1,200 per week. The additional dollars of gross profit, at present levels, from $65,000 would be about $11,500.

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[1]See Appendix B.

Of course, costs would also increase. The author estimates additional annual costs to be:

Labor - one person	$4,500
Utilities and Repairs	1,000
Rent	2,400
Other	1,000
Total	$8,900

If this were true, the management could expect a new profit increase of some $2,600.

The author recommends this proposal. First, it stablizes the Kaskaskia market position. Few competitors would venture a large investment in a new building to compete with it. Secondly, it provides an additional net profit to the owners. If the owners build the building, the rent will accrue to them. If not, the business can finance the costs and the depreciation costs will be lower than the rent, resulting in an increase in the ultimate profits to the owners. Lastly, it removes the Kaskaskia store from its present static position of inability to grow due to physical limitations.

Of course, the figures presented may be far out of line with respect to the true results. Sales may be high and expenses conservative. However, sales may also be too low because the store now lacks meat sales space, frozen food space, and space for varieties of non-foods. Additionally, the costs may be high due to the full-time personnel estimate and the maintenance costs estimate.

With respect to the long-run population decline previously mentioned, it is the author's opinion that the major portion of people who will leave, have already left. Some undoubtedly will leave in the future, but some also will come to use St. Elmo as a home while working elsewhere, such as Effingham or Vandalia. Today, it seems, St. Elmo is basically an agriculturally based community and will remain so in the future. In addition, a good convenient supermarket should extend the size of the St. Elmo trade area, thus recovering some of the potential loss which is occurring as the agricultural population declines.

Findlay
(Thousands of Dollars)

			Projection
Year	Actual Sales	Share of Market	Sales Trend
1956	$201	68%	$203
1957	216	77%	214
1958	227	92%	226
1959	240	86%	238
1960	247	91%	249
1962			273
1963			284
1965			306
1970			367

(Annual Incremental Increase per Trend: $11,630)

Findlay has achieved an excellent growth record in terms of sales and market share. The trend indicates that on the average, there occurred a sales increase of $11,630. The author estimates that their share of market has been rapidly increasing also, so that to date, over 90% of the sales are made by Kaskaskia. A further estimate is that the town's volume is about $275,000 total retail food sales.[1]

Deviations and Judgments

If the above trend continues and the market does not grow, Kaskaskia will have 100% of the Findlay business by mid 1963. Such a situation will probably exist, by observation of the competitive strength which is now non-existent. It has not been the Kaskaskia goal to exclude all competition. However, in this case, personal problems have forced closure of nearly all other food outlets.

In the author's opinion, then, the goal of the Kaskaskia store should be twofold. First, to provide the services and goods to fill the needs of 100% of the people when economically possible. The firm must be careful to cater to these needs lest competition come in to fill the gap between supply and demand. Further, it must not price monopolistically, as this will cause ill will and force out-of-town shopping habits.

Secondly, the store must be careful to watch growth patterns. As the proposed dam creates new sales patterns

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[1]See Appendix B.

such as recreational business and as the town grows naturally, the firm must cater to the demands of this new market. There is a real possibility that this new business may require a better and larger building in the wake of tourist demands. A town having only one store certainly will bring future competition. The question is when. Kaskaskia must be aggressive so that the desirability for another firm to locate there will be hampered and so that when competition does come, a major market share will not be lost.

Shelbyville

(Thousands of Dollars)

Projection			
Year	Actual Sales	Share of Market	Sales Trend
1956	$731	33%	$725
1957	757	33%	740
1958	724	33%	755
1959	755	31%	770
1960	808	34%	785
1962			816
1963			831
1965			861
1970			937

(Annual Incremental Increase per Trend: $15,140)

The projection table indicates an annual sales increase which averages $15,140. However, the trend line does not closely follow the actual sales results as is shown by 1960 sales of $808,000 versus $785,000 of sales per the trend. Shelbyville's eratic sales are due to a market situation which is more competitive than are those previously discussed.

Nevertheless, in the author's opinion, the trend set during the past five years would provide a desirable goal for the next three years. During the years 1961-63, construction on the proposed dam will not have begun and the additional growth of $15,000 per year will have to be gained at the expense of other supermarkets and via solicitation of business from normal growth. Thus by 1963, sales should equal $831,000 or 35% of the 1960 market. The writer agrees that this is a poor goal compared to the $50,000 sales thrust of 1960; however, a new competitive store has just been opened in Shelbyville, and a large chain has recently added its stamp program. As previously stated, the Shelbyville general outlook for employment is good.

Deviations and Judgments

As indicated above, the author is in favor of seeking a $15,000 annual sales increase until the new federal dam project begins its construction phase. During the period from 1961 until construction, Kaskaskia must make preparations to handle the new labor force which will demand food purchases. The following section deals with the dam's effect. The discussion assumes that construction will proceed per the engineering schedule which will be given later.[1]

The first effect which the dam will have will be an influx of construction workers to start in the spring of 1963.[2] The dam, exclusive of the cost of land purchased due to flooding, will cost about $23 million.[3] The construction period will follow for six years. Funds will be disbursed during the construction phase approximately as is shown below:[4]

Year	Amount*
1963	$ 634,000
1964	1,753,000
1965	3,368,000
1966	8,085,000
1967	10,375,000
1968	4,800,000

*Includes funds for purchase of land estimated at $6 million.

It is the author's opinion that at least 80% of the construction crews will purchase their food in Shelbyville because of the city's close proximity to the dam site and because it is the largest city near the lake. It is further estimated that approximately 20% of the total construction

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[1] Alfred J. D'Arezzo, op. cit.

[2] Ibid.

[3] Shelbyville Reservoir, Design Memoranda No. 3, U.S. Army Corps of Engineers (January, 1962), p. 68.

[4] Ibid., p. 88.

costs will be expended for labor.[1] Considering the previously stated construction figure of $23 million, the labor expense portion to Shelbyville will be:

Construction Costs	$23,000,000
Labor Portion	20%
Labor Dollars	4,600,000
Shelbyville Portion	80%
Shelbyville Portion in Dollars	$3,200,000

In 1960, the average Shelbyville family expended roughly 20% of its total income for food.[2] If this rate is applicable to construction workers, $640,000 (20% x $3.2 million) will be spent for food during the five-year construction period. Kaskaskia has normally received about 33% of each food dollar. Therefore, its share would be about 1/3 or $213,000.

If this is applied equally over the construction phase as shown previously, the following approximate sales increases should accrue:

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[1] *Ibid.*, pp. 68-78.

[2] The 1960 Census states that the average family income in Shelbyville was $4,826 and the population 3.1 persons per home. The author estimated per capita food purchases of $290 or a family expenditure of about $900 or 20% of the total income.

Year	Per Cent	Dollars
1964	6%	$ 12,780
1965	12%	25,560
1966	28%	59,640
1967	36%	76,680
1968	18%	38,340
Total	100%	$213,000

The writer is the first to admit that these figures are subject to great limitation. First, there are numerous assumptions of income, spending patterns, location, and timing. However, the attempt is to show what might happen and what could be reasonably expected.

Two other effects will ultimately change the market for food in Shelbyville. First is the development of a recreational area. It is impossible to make an estimate of the food sales which will be created due to the tourist traffic. However, the following quotes give an indication of the impact upon the entire lake area.

> The establishment of the Shelbyville Reservoir will provide an environment of high recreational potential with characteristics rather unique in the generally flat area of Illinois . . .
>
> Based upon total annual visitor-days experienced at existing Corps of Engineers reservoirs in relation to populations residing within their respective zones of influence, it is estimated that by 1971, the reservoir will have a potential of 4,615,000 annual visitor days. If at sometime during any given year the persons making up the estimated 4,615,000 total annual visitor-day potential spend an average of $3 in the reservoir area, . . . the area would experience an economic impact of between $13,000,000 and $14,000,000 of new gross business

in the area annually.[1]

The $13 million mentioned will not all be spent for food nor will it all be spent in Shelbyville. In addition, it will probably concentrate in the summer months when vacations are taken around lakes, although some will be spent by fall hunters and winter fishermen. However, the fact is established that a demand for recreational merchandise and vacation type foods will be created. Kaskaskia might well seek to cater to this demand.

Secondly, an economic gain will be developed due to flood control. It is estimated that over $600,000 of flood losses and net increased returns will be experienced.[2] This should make the agricultural incomes higher; however, most of the flood savings will be effected below the dam and away from the Shelbyville market.

A last increase in income may come as industry seeks the large body of water. To date, the writer has found no definite industrial commitments, but various community organizations are seeking development.

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[1] Shelbyville Reservoir, Design Memoranda No. 3, op. cit., pp. 47-8.

[2] Ibid., p. 101.

Arcola

(Thousands of Dollars)

			Projection
Year	Actual Sales	Share of Market	Sales Trend
1958	$ 277	39%	$ 272
1959	320	36%	330
1960	392	45%	387
1962			502
1963			559
1965			674
1970			961

(Annual Incremental Increase per Trend: $57,450)

It is readily obvious from these data that the three-year period was one of early sales development following an opening. Therefore, the $57,000 annual increase is not a realistic trend which can be pursued each following year.

Deviations and Judgments

Arcola is a town in which food sales are expanding. As shown in Appendix B, the total estimated sales of food in the town increased from $545,000 in 1956 to $866,000 in 1960. This is partially due to the location of the Kaskaskia facility in the town. Prior to the Kaskaskia store, it was believed that many sales went out of town due to poor facilities.

In a volatile market such as Arcola, the Kaskaskia store might well seek to expand sales on a market-share goal. The store has an excellent physical plant in terms of its ability to handle volume. Additionally, the store has experienced high costs as indicated by the low net profit percentage of 3.16% compared to an all-store average of over 4%. In the writer's opinion, an increased sales picture would not necessitate a substantial rise in costs, particularly if a cost budget were prepared to aid in control.

Total market sales have tended to level since 1959 at around $880,000.[1] It is the author's opinion that the Kaskaskia store should achieve 50% of the market by 1963, and 60% by 1970. To do this, Kaskaskia must gain an average of $16,000 minimum sales per year for the next three years to achieve a $48,000 total sales increase by 1963. Under the assumption that the market will grow to about $950,000 by 1970, a growth rate of about $10,000 per year, the goal of 60% of the market will necessitate an annual sales increase of about $18,500 per year for the seven years following 1963. At this growth rate, the store will gain $130,000 sales total which, when added to the $440,000 figure of 50% of the 1963 market, will yield 60% of the 1970 market.

Again a program must be established. Kaskaskia's forte in Arcola is convenience and wide variety. A previously mentioned price image may be helpful in Arcola. This volume will be necessary to cover the costs which presently hamper an otherwise good profit situation.

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[1]See Appendix B.

CHAPTER VIII

CONCLUSIONS AND RECOMMENDATIONS

Hypothesis Tested

In Chapter I of this paper, it was hypothesized that "Kaskaskia Stores, Inc. can survive, make a profit, and grow in the retail food industry as an operator of traditional, self-service, retail food outlets in smaller cities and towns." The hypothesis was designed to answer the problem which was, "to determine what the future of this business is when viewed as a going concern. Specifically, can this firm survive, make a profit, and grow during the next decade?"

It is the author's opinion that the hypothesis was tested and positively proved. The problem can be answered in the affirmative in each case. Survival would appear certain. Profits are definitely possible and growth can be achieved. The previous chapter summed the past, present, and future of each store with respect to the available data. Each seemed to have potential for success.

Qualifications

However, the writer does not desire to give the impression of *carte blanche* success for the next decade. The tests used in the paper do not have an air of infallibility nor do the assumptions made at the outset and during the test necessarily have to hold true. These major qualifications must be remembered.

1. At the outset, it was assumed that only predictable market forces will affect the assumed trend line. Of course, such things as fires, floods,death to key employees, new competitive stores, fraud, and similar occurrences might have a strong but detrimental effect on sales and profits. However, they are so random as to defy prediction. Therefore, they may well jeopardize the opinion just made.

2. Inherent but not stated through the test was the assumption that management decisions would remain constant during the next decade with respect to their per cent of correctness and error. Since the two primary management officials will be phasing into retirement during the decade, and since new management persons must replace them as decision makers, this relationship may change. Errors may greatly increase, or they may decline. Either direction will tend to affect the opinion rendered.

3. The author was limited in that his experience in conducting such an analysis is limited to what is normally taught in a five-year college program. He has had little outside experience and, therefore, must qualify the opinion by reason of limited experience, methods, and techniques of a personal nature.

Recommended Course of Action

Personnel

One personnel problem is the retirement of employees. The author recommends that the firm adopt a policy of retiring non-executive personnel at age 65. This is in conformity with generally accepted business practice in the country today and aids the firm in eliminating older employees who have a desire to work but lack the physical capacity.

In addition, it is recommended that management carefully analyze each position of Key People and Floor People with an eye to preparing for future personnel losses. When this is done, a program to obtain new persons should be mapped out. Finally, a definite training program should be started to teach new employees and extend the knowledge and insights of persons with previous company experience.

The final personnel problem discussed was the utilization of top management with respect to the proper organizational structure which the firm will need as the owner-founders take a less active role in the day-to-day operations. The writer recommends that the firm follow a policy of adaptation in its personnel problems as it does in its merchandising and operating policies. A firm this size cannot easily maintain a strict line and staff structure and organizational program. The firm is too small to have a large heirarchy of staff and advisory persons.

Therefore, no recommendation is made as to whom or where new managers should be located in the organization. No experience or tests are available to support such a recommendation. However, the author did notice in his study, that new and novel situations face the firm. Change is inevitable to allow the firm to adapt to these situations. Additionally, the firm hopes to grow and expand. The writer recommends a cautious approach to this new era. Since the management will be relatively new and the problems new, it might be easy to spread supervisory functions to a degree that efficiency will drop. Further, the firm is automatically left in a state of jeopardy when too much dependency is placed on one individual. Prolonged sickness, accident, or bad health, or any of a number of other occurances to this person might cause the firm to lose far greater numbers of dollars than the cost of another management employee who could fill in the gap.

Finances

The firm is missing an earning opportunity. Presently, the return on the owners' investment equals almost $.25 per year per dollar. If earnings of this nature are possible, the firm should not fear some outside debt. Dollars borrowed at 5% or 6% will return a net of 20% or 19% to the owners at present levels. It is the author's opinion that debt of this nature, when kept within limits of good solvency, are desirable devices for earning. Therefore, if expansion opportunities can be found which will return similar profits to the present operation, outside financing is reasonable.

General Recommendations

1. It has been mentioned in previous sections that the firm should seek a lower price image in several towns. It is the recommendation that the management seriously consider the establishment of a specific image for each store. A customer's perception of what she thinks she is getting for her shopping dollar is important in repeat business. Although studies tend often to show that price is secondary to other factors of convenience and quality, it is the author's opinion that few customers will go to a store which is out of line in prices with respect to the market. Prices are very important to the homemaker and a low price image will draw business.

Care must be exercised to avoid a "cheap" image or a low quality concept about the store. Also, care must be taken to avoid lowering gross profit to a level which makes the volume gain worthless. This can be accomplished by a better merchandising and sales program on the higher margin items.

2. The firm should consider a more formalized planning program. It need not be elaborate nor costly. However, the present use of last year's figures is not always adequate in terms of market changes. Further, a budget gives each operating person a goal to strive for in terms of dollars of sales or dollars of expenses. This

program might consist of the following:

1. Monthly Sales Forecast by Store

2. Quarterly Profit Forecast by Store

3. Annual Budget by Stores.

Each manager, in joint conference with the chief executive, could prepare the estimate. In this way, the firm could shoot for a specific goal. When deviations occur, then prompt and appropriate action can remedy the situation.

3. It is highly recommended that the firm do a cost analysis on the central purchase function. The analysis should determine whether the costs involved of warehousing, handling, and trucking are equal to or less than the savings in price and the other gains involved.

4. Lastly, it is suggested that the firm keep a sharp eye open for expansion opportunities. During the next ten years, nearby cities may provide new ground for the firm to develop. As this occurs, the firm should be ready to capitalize on the opening.

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Personal Letters and Questionnaires

A complete list of letters and questionnaires is included in Appendix B.

APPENDIX A

Purpose

The purpose of Appendix A is to explain the use of the firm's financial data in the paper and to explain the method by which the writer analyzed and adapted the firm's data. That is, the basic reason for this section is to determine how well the firm's records fairly represent the true picture of the firm's financial stature.

Discussion

The writer based his judgements on five annual reports furnished by the firm. These reports covered the fiscal years 1956-60. Because the firm is closely held and operated, the records are not periodically audited by a certified public accounting firm. Therefore, an unqualified professional opinion is not available. The records accompanying this paper are modifications of the firms unaudited records and are therefore qualified by the fact that an audit has never been performed.

However, the annual reports of the firm are prepared from the firm's figures and books by the firm of Gauger & Diehl, Certified Public Accountants, Decatur, Illinois. Their preparation is for tax and statement formulation only. Their 1961 letter to the shareholders and board of directors of Kaskaskia Stores, Inc. states, in part:

> To the extent of our limited examination, we found the statements to be in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The writer assumed for the purposes of this paper, that these statements were a fair representation of the firm's financial condition and earning power for the years under analysis. For the purposes of the analysis, the writer made several arbitrary changes in the account titles and classifications. These were basically for the purpose of clarifying the figures and data by groupings of data into summary titles. These changes are indicated by the footnotes to the statements and tables as shown in Chapter V.[1]

In addition to the data obtained from the annual reports, the writer used the corporate records on inventories, stamp costs, personnel, and competition. The chief executive officer and his assistant were of great aid in clarifying these data.

In Chapter V, Financial Evaluation, the paper gives the following data in tabular form:

TABLE TITLE	TABLE NUMBER
Comparative Balance Sheet Data - 1960	V-1
Comparative Income Statement - 1960	V-2
Comparative Ratios - 1960	V-3

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[1]These modifications were made at the recommendation and with the verbal approval of Dr. Charles Lawrence, C.P.A., Professor of Accountancy, Michigan State University. The author and Dr. Lawrence had various discussions concerning these adaptations between the dates of January 5 and May 1, 1962.

TABLE TITLE--continued	TABLE NUMBER--cont.
Profit Contribution Statement - 1960	V-4
Annual Profit Contribution - 1956-60	V-5

Appendix A adds the following tables to clarify the firm's financial picture:

TABLE TITLE	TABLE NUMBER
Inventory Turnover - 1956-60	A-1
Balance Sheet - 1956-60	A-2
Depreciation Schedule 1960	A-3

TABLE A-1

Inventory Turnover

(Cost of Sales/Average Inventory)

Year	Cost of Sales	Average Inventory	Turnover
		Moweaqua	
1956	178,952	16,480	10.86
1957	192,693	16,896	11.40
1958	185,909	17,186	10.82
1959	166,593	17,841	9.34
1960	167,477	18,785	8.92
		St. Elmo	
1956	235,672	9,960	23.66
1957	248,206	10,310	24.07
1958	263,461	10,693	24.63
1959	257,716	10,595	24.32
1960	255,809	11,457	22.33
		Findlay	
1956	165,746	9,335	17.76
1957	178,906	9,742	18.36
1958	187, 363	10,473	17.89
1959	198,099	10,847	17.43
1960	203,279	12,573	16.17

Inventory Turnover--Continued

Year	Cost of Sales	Average Inventory	Turnover
Shelbyville			
1956	597,201	38,629	15.46
1957	621,113	43,111	14.41
1958	591,893	45,376	13.04
1959	609,572	48,266	12.63
1960	654,711	53,709	12.19
Arcola			
1958	228,103	18,779	12.15
1959	263,936	20,870	12.65
1960	323,251	25,082	12.89
All Stores			
1956	1,177,571	74,407	15.83
1957	1,296,615	89,390	14.50
1958	1,456,729	102,513	14.21
1959	1,495,916	108,420	13.80
1960	1,604,527	121,607	13.19

TABLE A-2

KASKASKIA STORES, INC.
CORPORATION BALANCE SHEETS

Fiscal	1956	1957	1958	1959	1960
Assets					
Current Assets					
Cash	36,909	40,315	52,407	39,651	54,926
Accounts Receivable				3,155	
Inventory	75,596	103,184	101,842	115,659	129,161
Other				1,400	13,222
Total Current Assets	112,505	143,499	154,249	159,865	197,309
Net Fixed Assets	50,420	79,007	68,365	67,655	59,462
All Other Assets	15,550	15,410	15,385	15,131	16,205
Total Non Current Assets	65,970	94,416	83,750	82,786	75,667
Total All Assets	178,475	237,915	237,999	242,651	272,976
Liabilities and Net Worth					
Current Liabilities					
Banks					
Trade	14,094	32,813	16,212	12,091	27,078
Taxes	7,496	6,926	8,995	10,084	9,037
Other	31,010	54,565	38,618	29,059	38,904
Total Current Liabilities					
Long Term Debt	38,900	45,400	59,300	59,300	49,500
Total Debt	91,500	139,704	123,125	110,534	124,519
Tangible Net Worth	86,975	98,211	114,874	132,117	148,457
Total Liabilities & Net Worth	178,475	237,915	237,999	242,651	272,976

TABLE A-3

DEPRECIATION SCHEDULE

Asset	Total Cost	Depreciation	Book Value April 1,'61
Moweaqua Land	$ 750	$ ----	$ 750
Moweaqua Building and Improvements	9,748	6,508	3,240
All Equipment and Store Fixtures	123,754	75,775	47,979
Trucks and Autos	13,810	8,456	5,354
Warehouse Land	1,000	----	1,000
Warehouse Buildings	19,150	7,873	11,277
Totals	$168,212	$98,612	$69,600*

*This figure exceeds by $10,138, the net fixed assets per the Balance Sheet. This difference is the net value of warehouses which are not operating assets but are rented to other firms.

APPENDIX B

Purpose

Appendix B is designed to show the author's method of market investigation and analysis, and to indicate some facts found which are not included in the body of the report. In the introduction, the author defined a market as a "geographical area in which persons, through the exercise of their individual wills, spend income to purchase goods and services supplied by one or more sellers." Therefore, the analysis covers the three primary parties to a market: buyers, sellers, and the firm concerned.

Discussion

Buyers must have both income and an inclination to purchase. Additionally, the market changes as the number of buyers and sellers changes. Buyers were investigated as to numbers in Part A of the 1960 Census of Population, published by the Department of Commerce, Bureau of Census. Census parts B, C, and D also provided facts on ages, incomes, and miscellaneous other statistics. Also, the 1959 Agricultural Census published by the Bureau of the Census provided data on the area's rural income, production, etc. Market size in terms of total numbers of persons and expenditures is indicated in Tables B-1 and B-2. These tables also show the estimated Kaskaskia share of market for a five-year period.

Environmental factors such as industrial and regional growth were investigated by letters and questionnaires which were sent to selected persons. A copy of the questionnaire and a sample letter are included, as is a list of the persons to whom questionnaires were sent. A list of those persons who were personally contacted by letter is included. Information concerning the Kaskaskia operations and the operations of Kaskaskia competitors came from personal interviews with the Kaskaskia officials, personal observation, and Kaskaskia records (see Appendix A).

List of Questionnaire Receivers

<u>Shelbyville</u>

* Mr. Fred W. Simmering
Secretary, Shelbyville Chamber of Commerce

* Mr. William F. Aichele
Vice-President, Shelby County State Bank

Messrs. Younger and L. Westervelt
Directors and Officers, Shelby Loan & Trust Company

<u>Moweaqua</u>

* Mr. H. B. Ayars
President, Ayars State Bank

<u>St. Elmo</u>

Mr. Everett Smith
Editor, St. Elmo Banner

<u>Findlay</u>

* Mr. Merle Minor
Manager, Kaskaskia Stores, Inc.

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*Indicates a response.

Arcola

President, Arcola Chamber of Commerce

Sample Questionnaire Letter

811 I Cherry Lane
Michigan State University
East Lansing, Michigan

March 1, 1962

Messrs. R. Younger and L. Westervelt
Shelby Loan and Trust Company
Shelbyville, Illinois

Dear Sirs:

As a member of the operating staff of Johnston Super Markets, Inc., your fine city is of particular interest to me as we attempt to serve your citizens better. At present, I am conducting research to determine the needs of your market area as a thesis project to fill part of the requirements for a degree of Master of Business Administration. Better service to you is the primary goal of this project.

Your aid will be of great benefit in this study. By giving me your best judgments on the enclosed questions, I hope to make specific recommendations for the firm's participation in Shelbyville. In these questions, I have noted the differences between city and market area. City intends to note the city proper and surrounding urban areas, adjacent or attached. Market area includes those areas of city and rural which normally shop in your commercial district for convenience items such as food, drugs, gasoline, and necessities as opposed to hard goods, autos, equipment, and higher priced items for which persons will usually travel greater distances.

I realize the difficulty of some of these questions, but I am sure that your familiarity with the area will lend great validity to your judgments. Sincere appreciation is expressed for your help in this regard. It is our wish that Shelbyville may continue to be serviced with ever better food distribution by Johnston's.

All best personal wishes.

Sincerely,

Robert C. Johnston

Robert C. Johnston

enclosure

Questionnaire

MARKET ANALYSIS - SHELBYVILLE, ILLINOIS

I. Total Population

	City	Market Area
1957		
1959		
1960		
1963		
1965		
1970		

In 1960, of the city population, what per cent was:

Retired

Teenage or Below

Unemployed for lack of jobs

Employed out of town

II. Market Labor Force

	Total	Agr.	Industrial	Managerial	Professional	Other
1957		%	%	%	%	%
1959						
1960						
1963						
1965						
1970						

(Page 2)

III. <u>1960 Average Annual Income</u>

	City	Market Area
Average Family		
Industrial Family		
Professional Family		
Agricultural Family		
Average Autos per 1000 persons		
Average TV sets per 1000 persons		

<u>Remarks</u>

IV. Do you expect Shelbyville to grow in population within the next 10 years?

By what percentage?

Why?

V. Is Shelbyville seeking industrial expansion? How? With what success?

VI. Generally speaking, what are the prime factors which will hamper growth in Shelbyville in the next 10 years?

Letters Sent for Market Information

For Information on Shelbyville Reservoir

* U.S. Department of the Interior, Washington, D.C., March 21, 1962.

* U.S. Corps of Engineers, Wasington, D.C., March 21, 1962 and April 12, 1962.

* Tennessee Valley Authority, Knoxville, Tennessee, February 16, 1962.

* Honorable Everett M. Dirksen, Senator from Illinois, Washington, D.C., February 26, 1962 and March 30, 1962.

* Honorable Peter F. Mack, Jr., Congressman from Illinois, Washington, D.C., March 1, 1962.

* U.S. Corps of Engineers, St. Louis, Missouri, March 7, 1962.

* Honorable Edward C. Eversbacher, Senator of the State of Illinois, Springfield, Illinois, March 19, 1962.

For Information on Specific Industries in the Market

Mr. John P. Dragin, Vice-President, White Motor Company, Cleveland, Ohio.

* Mr. O. L. Luper, Comptroller, Humble Oil and Refining, Houston, Texas, answered by Mr. Condon MacKay, Public Relations Department, April 12, 1962.

* Mr. E. B. Erickson, Vice-President and Treasurer, Hygrade Food Products Corporation, Detroit, Michigan, answered by Mr. E. K. Hutter, Manager, Dairy Division, Quincy, Illinois, March 26, 1962.

* Mr. M. J. Devaney, Controller National Distillers and Chemical Corporation, Richmond, Virginia, answered by Mr. Alex Stevenson, Plant Controller, U.S. Industrial Chemicals Corp., Tuscola, Illinois, March 26, 1962.

* Mr. Noel Bollinger, President, STA-RITE Ginnie Lou, Inc., Shelbyville, Illinois, March 23, 1962.

Letters Concerning State Tax Revenues

* Honorable Edward C. Ebersbacher, Senator of the State of Illinois, Springfield, Illinois, March 19, 1962.

* Mr. O. H. McKnelly, Office of the Superintendent of Public Instruction, Springfield, Illinois, March 14, 1962.

* Mr. Theodore J. Issacs, Director, State of Illinois Department of Revenue, Springfield, Illinois, March 23, 1962.

For Information Concerning Kaskaskia Stores

* Mr. Ken R. Sayers, General Manager, Campbell Holton & Company, Bloomington, Illinois, March 20, 1962.

U.S. Small Business Administration, March 16,1962.

TABLE B-1

Estimated Food Sales by Towns--1960

Dollars and Market Population

Calculation of Per Capita Purchases--Illinois (Less Cook County)	
Total Food Retail Sales Tax Collections--Adjusted. . . .	$42,048,682
3% Collection Rate = Sales	$1,430,227,226
Downstate Population	4,951,433
Percapita Purchase of Food	288.85

Town	Population	Estimated Total Food Sales	Kaskaskia Sales	Market Population Total	Market Population Kaskaskia
Moweaqua	1,614	$695,000	$202,000	2,400	700
St. Elmo	1,503	665,000	313,000	2,300	1,100
Findlay	759	280,000	240,000	1,000	850
Shelbyville	4,821	2,432,000	760,000	8,420	2,615
Arcola	2,273	890,000	320,000	3,100	1,110
Total	10,970	4,972,000	1,835,000	17,220	6,375

TABLE B-2

Calculation of Market Size and Share

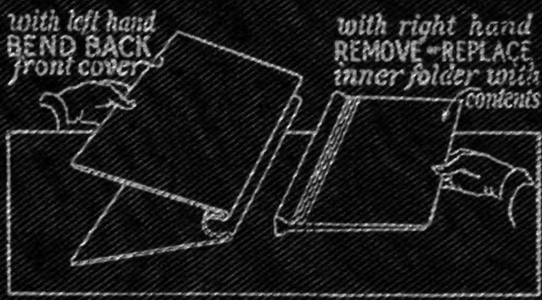
Data on the dollars of taxes collected on food by town were obtained from the Illinois Department of Revenue for the years 1956-1960. These data were adjusted for collection allowance of 2% in the years 1959 and 1960. Next the data were divided by the collection rate (2.5% for years 1956-1958, 3% for years 1959 and 1960) to determine Total Retail Sales of Food. The store market share was computed as a per cent of this figure. Results were as follows:

Market Calculation

Total Market Sales and Kaskaskia Market Share

		1956	1957	1958	1959	1960
Moweaqua	$	539	596	566	695	710
	%	40	39	40	29	29
St. Elmo	$	580	620	579	664	666
	%	48	48	55	47	47
Findlay	$	295	282	248	280	273
	%	68	77	92	86	91
Shelbyville	$	2,184	2,289	2,186	2,432	2,367
	%	33	33	33	31	34
Arcola	$	545	625	710	890	866
	%			39	36	45
All Stores	$	3,598	3,785	4,490	4,961	4,882
	%	40	40	41	37	40

Add 000 to dollar sales.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