

A COMPARISON OF VOLUNTARY AND
COOPERATIVE GROUPS

Thesis for the Degree of M. A.
MICHIGAN STATE UNIVERSITY
Robert Drayton McLane, Jr.
1959

A COMPARISON OF VOLUNTARY AND
COOPERATIVE GROUPS

by

Robert Drayton McLane, Jr.

AN ABSTRACT

Submitted to the College of Business and Public Service of
Michigan State University of Agriculture and
Applied Science in partial fulfillment of
the requirements for the degree of

MASTER OF ARTS

Department of Marketing and Transportation Administration
Curriculum in Food Distribution

1959

Approved: _____

ROBERT DRAYTON McLANE, JR.

ABSTRACT

The objective of this study is to give a description of voluntary and cooperative groups showing the advantages and disadvantages of each. To make this comparison two highly successful wholesale operations have been described. The first ¹⁵ ~~will be~~ a voluntary group while the second is a cooperative. Emphasis is placed on the services and retail assistance offered by the wholesaler, as well as the cost of each plan.

Not long ago the food industry was looking on the wholesale grocer as a dying form of distribution. It was said that the wholesaler's years were numbered because the better independent retailers would begin buying direct from the manufacturers, and that the wholesaler was too old-fashioned to survive.

In the 1920's the wholesale prices were often at a level that made it difficult for the independent retailer to compete with the food chain. In planning advertising, merchandising, and promotion events there was little cooperation between the wholesaler and retailer. Most wholesalers offered the retailer little assistance in finding new retail store sites, in helping to finance new store construction, in planning efficient store layouts, or in many of the other retailing problems where the wholesaler could be of direct service.

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ABSTRACT

Retailers have often been reluctant to concentrate purchases with a single wholesaler to help lower the cost of distribution. Also few retailers would take the wholesaler into their confidence and ask for assistance in the many areas of retail operation where the group wholesaler could offer specialized retail services.

With the development of the voluntary and cooperative groups these problems have been largely overcome. By working together as a team, these groups have made it possible for both the wholesaler and the retailer to be more successful in increasing the sales and profit of their operation. They have also found that they can work together without jeopardizing their individuality. As a result of the voluntary and cooperative group forms of distribution, the independent wholesaler and retailer are stronger today than at any time since the 1920's and promises to become even stronger in the future.

The main difference between the corporate chain and voluntary and cooperative groups is the ownership of the retail store. In voluntary and cooperative groups the ~~wholesale and~~ retail stores are owned by independent merchants. The corporate chains own both the wholesale and the retail stores.

Of the several different types of affiliated groups, the wholesaler-sponsored voluntary and the retailer-owned

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cooperative have become the most important. A retailer-owned cooperative group is a form of business enterprise owned and controlled on an equal basis by retail grocer stockholders who patronize the business and participate in any savings in proportion to their patronage.

The wholesale~~r~~sponsored voluntary group is an organization composed of a group of independently owned retail stores, associated with a sponsoring independently owned wholesaler. The retailer members voluntarily^{if} affiliate with the wholesaler for the purpose of buying and selling merchandise, as well as special services offered by the wholesaler.

The voluntary and cooperative groups of today have passed the experimental stage of their operation. At the present time well organized affiliated groups are able to maintain their present markets and are actively competing with the corporate chains for new markets. In 1958 the voluntary and cooperative groups accounted for forty-five per cent of the total grocery sales ^{while} ~~and~~ eleven years ago the affiliated groups had only twenty-nine per cent of the nation's food sales.

The strength and importance of voluntary and cooperative groups is shown by the success of the plan and its stability in the food industry. The growing competition in the food industry between chains and independents will

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increase the importance of these affiliated groups because of the many advantages offered the retailers.

The Food Distribution program at Michigan State University is under the sponsorship of the National Association of Food Chains.

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ACKNOWLEDGMENTS

The author wishes to express his sincere appreciation to the management of The Fleming Company, Inc., and Spartan Stores, Inc., who gave willingly of their time in supplying the necessary information for this study. He is particularly indebted to Mr. Ned N. Fleming, President, Fleming Company, Inc., and Mr. Joseph G. Foy, General Manager, Spartan Stores, Inc.

Sincere appreciation is extended to Dr. E. A. Brand for his assistance and counsel in the preparation of this thesis.

The author gives special recognition to his parents for their constant inspiration and guidance throughout his life.

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CHAPTER I

INTRODUCTION

In the past few years there has been a new look in grocery wholesaling. This new look has been of great importance to the nation's independent retailers, because it has played an important part in the progress and growth of independent supermarkets.

During the 1920's and 1930's the food industry was looking on the wholesale grocer as a dying form of distribution. Manufacturers were bypassing them and selling directly to the retailers. Chain stores were rapidly growing by doing their own wholesaling and retailing, and it was said that the wholesaler was too old-fashioned to survive.

Wholesaler prices were often at a level that made it difficult for the independent retailer to compete with the food chains. There was also little cooperation between the wholesaler and retailer in planning merchandising, advertising, and promotion events. Most wholesalers offered the retailer little assistance in finding new retail store sites, in helping to finance new store construction, in planning efficient store layouts, or in many of the other retailing problems where the wholesaler could be of great help.

The independent retailer has often been reluctant to concentrate purchases with a single wholesaler in order to lower wholesale operating costs.¹ Also, few retailers would take the wholesaler into their confidence and ask for assistance in the many areas of retail operation where the group wholesaler could offer specialized retail service.

Today, these problems have been largely overcome through the growth of voluntary and cooperative groups. By working together as a team, these groups have made it possible for both the wholesaler and the retailer to be more successful in increasing the sales and profits of their operation. They have also found that they can work together without jeopardizing their individuality. As a result of this new form of distribution, the independent wholesaler and retailer is stronger today than at any time since the 1920's and promises to become even stronger in the future.²

Purpose of the Study

The purpose of this study is to present a comparison of the voluntary and cooperative group method of operation, showing the advantages and disadvantages of each.

¹Robert W. Mueller, "The New Look In Grocery Wholesaling," Progressive Grocer, May, 1956, p. 58.

²Ibid., p. 52.

The first section describes the conditions which brought the need for this method of food distribution. Consideration will be given to operating methods of early and present day groups showing the need for affiliation by independent retailers.

The second part of the study describes two highly successful group operations. The first will be a voluntary group while the second is a cooperative. Emphasis is placed on the services and retail assistance offered by the wholesaler, as well as the cost of each plan.

The final section of this study is a comparison of these two methods of group operation showing the advantages and disadvantages of each.

Definition of Terms

Terms such as wholesaler-sponsored voluntary group, retailer affiliation, retailer-owned cooperative, and chains will be used through this study.

Wholesaler-sponsored voluntary group. This is an association of independent retail grocers under the supervision of a wholesale grocer, who renders merchandising, engineering, accounting, and other services to the retail members. The group is organized on the initiative of a wholesale grocer seeking to bring about a more effective combination of wholesaler and retailer functions

through affiliation with a select group of retailers.³

Retailer affiliation. Retailer affiliation with a voluntary or cooperative group means that an independent retail merchant has a franchise from a sponsoring wholesaler to operate his store under the group name, and receive merchandise and retail assistance from the wholesaler. The retailer retains complete ownership and control of his business but he must display the group emblem and become identified as a member of the affiliated group.

Retailer-owned cooperatives. Retailer-owned cooperatives are organized as incorporated wholesale grocery companies, which operate a warehouse and do a regular wholesale grocery business, but its stock is owned entirely or largely by the independent retail grocery members. The basic purpose of the retailer cooperative is to buy and sell together just as voluntary groups do, with the warehouse serving as the sponsoring headquarters.⁴

Food chain. A food chain is an organization operating more than ten retail stores under the same ownership with central management.

³M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Company, Inc., 1955), p. 12.

⁴R. W. Byerly, The Future of the Wholesale Grocer (Washington, D. C.: United States Wholesale Grocers' Association, 1956), p. 2.

Methodology

The majority of the information on the development and growth of the voluntary and cooperative group movement was obtained from secondary sources such as trade periodicals and text books. Information was also obtained from correspondence and interviews with leading men in the area of food distribution.

In an effort to show the complete operation of a voluntary and cooperative group, it was necessary to limit this comparison to two of the leading firms in the industry. These firms were selected because of the outstanding success each has obtained in the food industry and because of their cooperation in allowing a description of their operation.

Personal interviews were held with executives from each firm in order to get accurate information about their operation and the services performed for retail members. The information obtained from the interviews was used in writing the description of each firm's operation.

Limitation of the Study

The firms used in this study are two of the most outstanding and successful in the industry. Their total annual sales volume far exceeds the national average for voluntary and cooperative group wholesalers, thus they are leaders in sales as well as services offered to retail members.

It is not the intention of the writer to compare these two firms to show that one is better than the other, but rather to give a description of voluntary and cooperative groups showing the advantages and disadvantages each form of group affiliation offers to retailers.



CHAPTER II

THE DEVELOPMENT OF VOLUNTARY AND COOPERATIVE GROUPS

The grocery wholesalers of today have made great improvements in their operation in the last forty years. In the typical wholesale operation in the 1920's, a grocery product costing \$1.00 would be sold to the retailer for \$1.13 and then to the consumer for \$1.40. Today, this item can be purchased by the consumer for \$1.20 because of the improvements that have been made in the field of food distribution.⁵

During this early period of grocery wholesaling, merchandise was usually stored in a multi-story warehouse and little use was made of material handling equipment. The wholesaler would get business by sending salesmen to call on the retail trade. The retailers purchased the merchandise on credit and many were slow in paying the wholesaler. Most of the retailers were small and usually divided their business among several wholesalers. This practice meant small orders that were expensive to assemble and deliver.⁶

⁵Paul Converse, "Twenty-Five Years of Wholesaling," The Journal of Marketing, Vol. 22 (July, 1957), p. 40.

⁶Ibid., p. 41.

This method of wholesaling required high margins to cover costs and return a profit. Before the advent of the food chains the wholesaler had little incentive to improve his operation because he faced competition only from other wholesalers whose high operation expense was much similar to his.

The Effect of the Food Chain

The chain food stores rapid advancement in the 1920's and began to change the character of the food industry. By the 1930's the chains were threatening to take over a large part of the food business from the independent retailers who had failed to keep pace with the changes that had taken place in food distribution. Because of the success of the chain stores, the independent merchant began to feel that the chains were unfair in their method of operation and began campaigns to push restrictive legislation on the food chains. As a result of these campaigns forty-five states passed some form of price maintenance laws and a number of states had a tax on multi-store operators.⁷ Even with this anti-chain legislation the food chains grew from 500 companies with 8,000 units in 1914, to 995 companies with 62,725 retail units in 1930.⁸

⁷Ibid., p. 43.

⁸Zimmerman, op. cit., p. 4.

The early food chains were successful primarily because they were better merchants who were constantly striving to reduce selling cost. By making direct purchases from the manufacturers, doing their own warehousing, and selling through their own retail outlets, the large food chains were able to have a lower cost of distribution. As can be seen from Table I, the margins in the retail stores have greatly decreased over the years as efficiency increased. This lower cost of distribution, started by the food chains, resulted in lower prices to the consumer, and is one of the major reasons for their rapid growth in food retailing.

TABLE I
GROCERY MARGINS AND SALES PER EMPLOYEE¹

Year	Annual Sales per Employee	Margin Per Cent	Remarks
19th century	\$2,000--3,000	30-40	Service stores Goods out of reach of customers
1900	4,000--5,000	25-30	More packaged goods More perishable goods
1925	8,000-10,000	20-25	31 per cent with self-service
1946	46,000	15-20	76 per cent of sales made in self- service stores
1951	42,000	15-19	

¹George E. Kline, "How Stores Have Changed Over the Years," Progressive Grocer, Vol. 31 (October, 1952), p. 54.

Realizing that anti-chain legislation alone would not stop the growth of the chain stores, both the wholesaler and retailer began looking for some form of organization which could help them become more efficient. One of the main disadvantages under which independent retailers were operating was that their small corner stores were operated haphazardly and making only between \$300 and \$400 in weekly sales. These stores were no match for the more efficient food chain operation, whose sales were approximately three or four times greater. The chains enjoyed another advantage in buying and advertising. With no Robinson-Patman law in force in the 1920's, the food chains were getting many buying concessions and price advantages which enabled them to have lower merchandise costs. These cost advantages were beyond the reach of the average independent wholesaler or retailer.⁹

Table II shows how much more efficient the early chains were than the independent retailers in 1929. The independent retailers had over three times as many stores as the chains but they were doing only twice as much total business. Also, the chains were able to do 3.5 times as much volume per store as the independent retailers.

⁹ Ibid., p. 5.

TABLE II
COMPARATIVE SALES OF INDEPENDENT AND CHAIN
RETAIL GROCERY SALES IN 1929¹

Item	Amount
Total number of independent retail stores	285,641
Total volume	\$4,964,440,580
Average annual sales per store	17,380
Total number of retail chain units	62,725
Total volume	\$2,885,350,000
Average annual sales per store	46,000
Combined Total Sales	\$7,849,790,580

¹M. M. Zimmerman, The Super Market (New York: Mc-Graw-Hill Book Co., Inc., 1955), p. 5.

In the 1920's both the wholesaler and retailer realized that the food chain competition should be met with new ideas and modern methods of operation. There should be lower prices, cleaner stores, better advertising, and the newer methods of display and promotion. Only by using these methods could the independent retailer meet the food chain competition.¹⁰

¹⁰Ibid.

The Growth of the Voluntary Groups

In an effort to overcome the advantages of the corporate chain, wholesalers and retailers have tried several forms of group affiliation. One of the first forms of group affiliation was buying groups. These groups were formed on the assumption that buying power was the main advantage of the chains, so retailers organized informal pooling of orders. This pooling of orders succeeded in gaining some reduction in prices, and when combined with pool-cars lower freight rates were obtained.

Even with the lower prices and freight rates, these informal buying groups failed because they could not give the retailers all the services needed to meet the chain competition. No provision had been made in these groups to improve the advertising and merchandising in the retail stores. To overcome these weaknesses of the buying groups, voluntary groups began to be organized. This name developed because retailers voluntarily affiliated their stores with the wholesaler sponsoring the group. The services provided by the wholesaler for group members were similar to those performed by the central or district offices of the corporate chains. The main differences between the corporate chain and voluntary group is the ownership of the retail store. In voluntary groups the wholesale and retail stores are owned by independent merchants. The corporate

chains own both the wholesale and the retail stores.¹¹

Voluntary groups developed rapidly because they were providing the retailers with much needed assistance and low cost merchandise. Of the several different types of voluntary groups, the wholesaler-sponsored and retailer cooperative have become the most important. In both of these distinct types of voluntary groups emphasis is placed on the wholesale operation and the importance of a close relationship between the wholesale and the retail functions.¹²

Retailer-Owned Cooperative Groups

A retailer-owned cooperative group may be defined as a form of business enterprise owned and controlled on an equal basis by retail grocer stockholders who patronize the business and participate in any savings in proportion to their patronage.

The retailer-cooperative wholesalers had their beginning during the period of informal buying groups. These early buying groups found it necessary to have their own warehouses to store the merchandise until it could be distributed to the retail stores. In other cases, groups

¹¹Theodore N. Beckman and Harold H. Maynard, Principles of Marketing (New York: The Ronald Press Company, 1952), p. 239.

¹²Converse, op. cit., p. 42.

of merchants organized for the express purpose of operating their own wholesale warehouse. In either case, the warehouse is operated by a paid general manager and paid employees, in the same way as if it were owned by a private individual or corporation.

In 1887, a group of independent retail grocers banded together to start the first retailer-owned food wholesaler--the Baltimore Wholesale Grocery Company. One year later in Philadelphia, the Frankford Grocery Company was founded. This cooperative group developed rapidly until it had approximately 2,000 independent retail grocer members. Soon after the success of these groups many other cooperatives were established to help the independent merchant in his battle against the corporate chain. In 1958, there were 195 cooperative warehouses which have an annual sales of \$2.60 billion.¹³ Membership in these groups increased to approximately 37,000 retail food stores.¹⁴

The retail members are required to finance the wholesale operation and pay cash for their merchandise or receive a week or ten day's credit. But credit is usually

¹³Robert W. Mueller, "Annual Report on Food Retailing," Progressive Grocer, April, 1959, p. F-18.

¹⁴Converse, op. cit., p. 47.

extended only after the members have made cash deposits equal to their average weekly purchases. By operating in this manner the warehouse has capital to pay cash for all purchases.¹⁵

In organizing the cooperative warehouse it has been found that at least forty progressive retailers are needed to maintain a volume large enough to operate efficiently. With a smaller number there is difficulty in obtaining adequate capital to begin operation, merchandise cannot be purchased in large quantity, cooperative advertising would become too expensive, and advantage could not be taken of special market conditions.¹⁶ Therefore, it has become necessary for the cooperative wholesaler to obtain as many members as possible in order to purchase in quantity and spread the cost of operation over many members. The average annual sales for a cooperative warehouse in 1958 was \$13.33 million.¹⁷

The retail members are usually required to purchase the majority of their merchandise from the cooperative wholesale by mailing in their orders. This method of

¹⁵ Ibid.

¹⁶ Beckman and Maynard, op. cit., p. 240.

¹⁷ Mueller, "Annual Report on Food Retailing," op. cit., p. F-18.

ordering makes possible a savings in the elimination of salesmen. Even with the success of this form of ordering, cooperatives have found it necessary to periodically send salesmen or contact men to retail members. The purpose of these men is not to take orders but rather to keep members informed and in contact with the wholesaler.

Cooperative group warehouses have achieved a very low operating expense. The normal operating costs for these groups is around 4.6 per cent of sales, which makes it below the 8.7 per cent cost for full-service wholesalers.¹⁸ The profit made in the operation of the warehouse is returned to the retail members as patronage dividends and only small amounts are kept as surplus.

The cooperative groups began by handling dry groceries, but as the supermarkets began to increase the number of items stocked, the wholesaler also expanded. Many of the group wholesalers now handle such merchandise as frozen foods, drugs, toiletries, meat, and produce. The warehouse also stocks limited lines of controlled brand merchandise for their members. Merchandise not kept in the warehouse can be drop-shipped direct to the retail stores at low costs.

The cooperative group warehouse has been able to reduce operating expenses well below that of full-service

¹⁸ Beckman and Maynard, op. cit., p. 241.

wholesaler by eliminating many of the services which were being offered the retailer. These savings were achieved by selling for cash, the elimination of delivery service, regular salesmen, slow-moving items, and operating capital being provided by members.¹⁹ One limitation of the cooperative group wholesale method of operation is that too much importance has been placed on providing merchandise at low prices and little or no merchandising help was given to the retail member. In the past few years this mistake has been recognized and the wholesalers are beginning to provide more merchandising assistance.

Wholesale-Sponsored Voluntary Groups

During the 1920's, the corporate chains continued to expand rapidly. In an effort to help improve the position of the independent, leaders of both wholesale and retail organizations began developing a new tool, the wholesale-sponsored voluntary group.

The first wholesale voluntary group was started in 1921, in Buffalo, New York, by Smith M. Flickinger who was an owner of a wholesale grocery company. As a wholesaler, Mr. Flickinger was also able to see the lack of efficiency and initiative among his own customers in competing with the chains. So, in 1921, he started a voluntary group

¹⁹Ibid.

which came to be known as the Red and White Stores. This voluntary group of independent merchants now covers thirty-four states and has over 5,000 retail members.²⁰ In 1958, there were 545 wholesale firms doing \$3.95 billion in annual sales.²¹

Another one of the pioneers of the voluntary group movement was J. Frank Grimes. Mr. Grimes was a member of a Chicago certified public accounting firm and as he worked with wholesale grocery companies he was able to see the results of the chain competition on the wholesaler's business. Mr. Grimes realized that improvements must be made in the independent wholesaler and retailer operations if they were to survive. In 1926, Mr. Grimes established the Independent Grocers Alliance of America (IGA). The William T. Reynolds Company of Poughkeepsie, New York, was the first wholesaler to be established under the IGA voluntary group. Under the leadership of Mr. Grimes the national IGA group has expanded to where forty-eight wholesalers have more than 5,000 high-volume independent retailers.²²

A wholesaler-sponsored voluntary group is an organization composed of a group of independently owned retail

²⁰Zimmerman, op. cit., p. 15.

²¹Mueller, "Annual Report on Food Retailing," op. cit., p. F-18.

²²Gordon Cook, "The Historical Development of the Voluntary and Cooperative Groups," The Voluntary and Cooperative Group Magazine, Vol. 19 (December, 1949), p. 60.

stores, associated with a sponsoring independently owned wholesaler. The retailer member voluntarily affiliates with the wholesaler for the purpose of buying and selling merchandise, as well as special services offered by the wholesaler.²³

The voluntary agreement between the wholesaler and retailer centers around their dependence on each other. The retailer must have a low cost source of supply, as well as special assistance to insure his success and in addition, the wholesaler is dependent upon the retailer as an outlet for his goods.

When a retailer joins a voluntary group he agrees to concentrate his purchases with the wholesaler, therefore, the wholesaler is relieved of a large portion of his selling expense. The retailer mails his orders to the wholesaler accompanied by signed blank checks for payment. This check relieves the wholesaler of having to carry an accounts receivable record and also permits him to buy for cash.

The wholesaler uses merchandising men, which correspond to the supervisors of the chain stores, to work with the retail members in improving their operation. Many wholesalers are beginning to employ produce, meat, frozen foods, and dairy specialists to help the retailer with his

²³Charles F. Phillips and Delbert J. Duncan.
Marketing Principles and Methods (Chicago: Richard D.
Irwin, Inc., 1949), p. 196.

special problems. With the trend toward larger and more modern supermarkets, the wholesaler is providing assistance in the construction and layout of new buildings and the remodeling of old stores. Accounting assistance is offered. Many of the progressive voluntary wholesalers are providing financial assistance for experienced merchants.

The trend for voluntary wholesalers in recent years has been the adding of merchandise lines offered to the retailers. Many voluntary wholesalers have added health and beauty aids, housewares, frozen foods, and produce to their dry grocery lines. A few are warehousing cured meats and have agreements to drop-ship fresh meats to their retailers. Few wholesalers warehouse bread or milk but these items are frequently drop-shipped to member stores. In the past few years, the voluntary wholesalers have been expanding their lines of merchandise faster than the retail cooperative warehouses.²⁴

The expansion of lines handled by the voluntary wholesaler has also caused an increase in operating expense. Dry groceries can be handled at a cost of about three per cent, but lines such as health and beauty aids are sold in smaller quantities and result in greater handling expense. Frozen foods require special capital investments in refrigerated facilities which add to the cost of its distribution.

²⁴Converse, op. cit., p. 48.

The warehousing of produce is expensive because it involves special skill in buying and handling, and delivery must be made more frequently.

Although most of the wholesale-sponsored voluntary groups vary in many details, the essential basis of the organization in all cases is working together as a unit to develop the mutual benefit and profit of both the wholesaler and retailer. This cooperation between the wholesaler and retailer is directed toward providing the retailer with merchandise at competitive prices, while at the same time helping the independent merchant operate better stores. In working together, although independently owned, retailers and wholesalers direct their efforts toward operating more efficiently.

The Operation of Voluntary and Cooperative Groups

In both voluntary and cooperative groups, the importance of group affiliation is stated in the contract between the retailer and wholesaler in which both parties agree to work together for their common interest. The retailer is expected to buy the bulk of his merchandise from the wholesaler, to cooperate in the wholesaler's promotions, and to conform to certain operating procedures. The wholesaler agrees to furnish services such as advertising assistance, accounting service, supervision, aid in store development and remodeling, financial assistance, and in general any

assistance a warehouse headquarters can give a retail supermarket.²⁵

The wholesaler also must make merchandise available at prices which will enable the independent retailers to compete with their major competition. The agreement of the retailer to concentrate purchases with the sponsoring wholesaler and the wholesaler to sell his merchandise on a low mark-up basis and offer retail assistance, is the main basis of group affiliation.

In retailer-cooperative warehouses the method of pricing merchandise to retail members is a mark-up system. The cooperative takes the cost of the merchandise delivered to the warehouse, then a small percentage is added to cover the expense of operating the warehouse. At the end of the year the profit is paid back to the members in proportion to their purchases.

The method of pricing merchandise used by most wholesaler-sponsored voluntary groups is the cost-plus plan. Under this method of pricing, the wholesaler bills the merchandise to the retailer at cost and a percentage mark-up is added to the invoice total. The mark-up ranges from two to four per cent for dry groceries and other lines such as produce, frozen foods, meat, and bakery products,

²⁵Edwin H. Lewis, "Comeback of the Wholesaler," Harvard Business Review, Vol. 38 (November-December, 1955), p. 120.

the mark-up is approximately ten per cent. The percentage mark-up decreases as the volume of purchases by the retailer increases, thus giving merchants an incentive to concentrate his buying with the group warehouse. Differences in the cost-plus plans among companies are the result of varying practices in charging service fees.

Other wholesalers who do not use the cost-plus plan in charging for their services prefer to use a scale of fees for promotional activities, accounting, and general management services. For the retail member to receive merchandise at these low mark-up figures, he must conform to the wholesaler's plan of operation and accept a reduction in expensive services. He pays cash or maintains a deposit with the wholesaler, orders in case lots, and takes delivery as scheduled.

Retailer participation in both the voluntary and cooperative groups requires certain action on the part of the retailer. These requirements are primarily that the retailer is expected to follow the group promotional program and buy the bulk of his merchandise from the sponsoring wholesaler. In addition, the membership in an affiliated group requires the retailer to maintain all standards established by the wholesaler in operating the retail stores. These would include displaying the affiliated group name, operating each store on group standards, merchandising the

group's private label merchandise, and using accounting methods set up by the wholesaler.²⁶

Advantages of Voluntary and Cooperative Group Membership

The independent retail members of voluntary and co-operative groups have been able to seize many of the advantages of chain operation and maintain private ownership and control of the business. The success of the many voluntary and cooperative groups has shown that the basic principle of a wholesaler working with a group of retailers to secure buying, advertising, and merchandising advantages is fundamentally sound.

The success of the voluntary and cooperative group idea can be attributed to certain basic factors. These advantages of group membership now will be explained to show what they mean to the independent retailers. Not all these services are provided by every affiliated group wholesale, but the largest and most successful groups have found these retail services most important in the growth of their retail members.

Cost advantage of group affiliation. One of the major advantages of voluntary and cooperative groups is providing merchandise to retailers at lower prices than they could get buying from several wholesalers. This lower cost of

²⁶Ibid., p. 122.

merchandise from the wholesaler is accomplished in several ways. First, lower cost of operation is obtained from large volume and increased turnover, plus reduced selling cost. Second, advertising and merchandising discounts are obtained by quantity purchases. The advertising allowance can be obtained because through the affiliated group, a wholesaler finds himself in an improved position for selling advertising and merchandising service to the manufacturer. In return for an advertising allowance the wholesaler will agree to feature the manufacturer's product in the groups advertising. The wholesaler may agree further to have members build special displays of the merchandise in the retail store. This advertising money collected from manufacturers is then passed on to the retail members, which enables them to increase their profits and still allow sales at lower prices.²⁷

In addition to providing affiliated retailers with merchandise at low cost, most group wholesalers perform a number of services for members. The reason for the wholesaler offering the numerous services is that no one independent retailer could afford to have them because of the money, time, or special skills required. Services which are commonly offered by many affiliated group wholesalers are: supervision for retail members, store

²⁷Phillips and Duncan, op. cit., p. 357.

engineering, retail accounting, financing and leasing programs, advertising, and complete merchandising services.

Supervision for retail members. The voluntary and cooperative group wholesaler usually has a staff of trained, experienced field representatives who call on the member stores regularly. These men are not sent out as salesmen, but are employed by the wholesaler to provide the affiliated retailers with assistance in store management. Besides the regular supervisors who are trained to handle general merchandising problems in the supermarket, many wholesalers employ specialists to aid retailers in operating meat, product, frozen food, and dairy departments. The regular field men also provide effective communication between the wholesaler and affiliated retailers. While field men give assistance to the retailer in all parts of his operation, the majority of the supervisors' time is spent in developing special promotions and advertising programs for the affiliated stores.²⁸

Store engineering. Most voluntary and cooperative wholesalers have store engineering departments which work with the independent retail members in store layout and equipment needs for modern supermarkets. The store engineering department also furnishes plans for the construction of new stores or remodeling plans for old stores.

²⁸Converse, op. cit., p. 48.

Wholesalers also purchase equipment from manufacturers for the retailers. Large savings can be obtained by having equipment shipped direct from the manufacturer to the retailer and having the equipment billed through the wholesaler. The quantity discount that is obtained by the retailer, buying his equipment through the wholesaler, is comparable to dealer or chain store discounts.²⁹

Retail accounting. The affiliated group wholesalers have learned how important it is for every retail member to have accurate records of his operation. For this reason most wholesalers now provide retail accounting services for its members. The wholesalers have found that they can do the accounting work more efficiently and economically at a central point than each retailer can do it for himself.

The retail stores provide information such as purchases, sales, and expenses in weekly reports which are sent to the accounting department at the group wholesale. Using this information the accounting department periodically prepares profit and loss statements for each store. These statements are also used by the wholesalers to have accurate figures on which to base their recommendations for more profitable retail operations.

Financing and leasing programs. Because of the tremendous investment in new supermarkets, most group wholesalers

²⁹Ibid.

find it necessary to help in financing and leasing. Most of the financing done by the wholesalers is in the form of short loans to established retailers, financing and leasing of fixtures, and leasing of buildings to affiliated members.

Before a wholesaler makes any loans the retailer is thoroughly investigated. Not only is the retailer's integrity and ability as a merchant important but also the store's potential to grow must be evaluated.

In the leasing of buildings to retailers it is the practice of most wholesalers to charge a percentage override on the primary lease to their retail members. In helping retailers finance fixtures several plans are used by group wholesalers. One is a plan in which the retail members pay twenty-five per cent down on the total cost of the fixtures and the balance payable on a certain percentage of sales. In using this method the retailer usually pays for the fixtures in three or four years. Another plan used by wholesalers is to lease equipment for supermarkets to the merchant. The merchant can buy the fixtures at their depreciated value any time before they have been fully depreciated.³⁰

Without active participation by the group wholesalers in helping the independent retailer build new supermarkets, the growth of the groups would be severely limited. For

³⁰Byerly, op. cit., p. 7.

this reason, wholesalers are giving more assistance to retailers in helping them build modern supermarkets at the lowest possible cost to the group members.

Advertising. Today, voluntary and cooperative group wholesalers are very active in helping the members with their advertising programs. This assistance is in the form of providing retailers with mat service, direct mail circulars, suggested items for retailer's advertising program, special promotion materials, store and window posters, and display cards.³¹

The wholesaler makes up the weekly advertising program and has mats made for the retailers at very lost cost. The retailers do not have to follow the advertising program developed by the wholesaler, but through the service, members can get an effective advertising program at a much lower cost than the retailer doing it on his own. Most group wholesalers also provide direct mail circulars and hand bills for retail members. These circulars and hand bills are used for special promotions and are sold to the retailer at a low cost.

Another most important advertising service the warehouse provides for the retailer is the collection of manufacturer's advertising allowances. For the members to

³¹Harold E. Green, "Sales and Profit Soar When Retailers Can Concentrate On Selling," Printer's Ink, Vol. 229 (November 4, 1949), p. 26.

collect advertising allowances on their own, with proof of advertising having to be submitted to as many as 200 suppliers, the cost would be prohibitive. Likewise, all promotional rebates are collected by the warehouse and distributed to retail members on the basis of their performance. These two items alone, advertising and promotional rebates, can amount to approximately one-half of one per cent of sales.³²

All this advertising service gives the independent retailer an effective advertising program which is equal or better than his competition, but through group advertising he is paying for only a small portion of the total cost.

Merchandising service. The merchandising program has been found to be one of the most important parts of the voluntary and cooperative group's success. The reason for this is that the wholesaler, through his merchandising program, is constantly trying to improve the operation of its independent retail members. Many wholesalers offer retail members merchandising service in the following departments: groceries, non-foods, frozen foods, dairy, meat, and produce.³³

³²Personal correspondence with Joseph G. Foy, General Manager, Spartan Stores, Incorporated, Grand Rapids, Michigan.

³³Converse, op. cit., p. 49.

In each of these areas of merchandise, the wholesaler is constantly trying to obtain the best quality of merchandise at the lowest cost possible. After the merchandise is purchased a close working relation is maintained with the retailers to help increase his sales volume.

Wholesalers Advantages in Affiliated Groups

Most of the advantages of voluntary and cooperative groups discussed so far have been from the retailer's point of view, but the wholesale operation also receives many benefits from the group. The wholesaler's main advantage is an assured market in which retailers are concentrating the purchase of their merchandise from the group wholesaler. Another advantage is lower cost of operation for voluntary and cooperative group wholesalers. This is made possible because the wholesaler is buying in larger volume and receiving allowances from manufacturers because of his control of retail stores in advertising and merchandising. The wholesaler is cutting cost in not having to maintain a large sales force to obtain orders from the retailers and also because they no longer extend credit as many wholesalers have in the past.

An example of how wholesalers have improved their position in the food distribution industry is shown in Table III. This example illustrates how important voluntary and cooperative groups have been to the wholesalers. The wholesalers have been able to greatly increase

their volume of business and at the same time lower the operating expenses.

TABLE III
COMPARATIVE PROFIT AND LOSS STATEMENT OF A TYPICAL
GROCERY WHOLESALER BEFORE AND AFTER SPONSORING A
VOLUNTARY GROUP¹

Item	1942 (Before)		1952 (After)	
	Percentage of Sales		Percentage of Sales	
Sales	\$627,892	100.00%	\$5,334,720	100.00%
Cost of goods sold	593,221	92.98%	5,141,062	96.37%
Gross margin	\$ 44,671	7.02%	\$ 193,658	3.63%
Total expenses	51,628	8.12%	187,943	3.51%
Operating profit (or loss)	\$ (6,957)	(1.10%)	\$ 6,615	.12%
Cash discount earned	9,568	1.51%	80,832	1.51%
Other income and allowances	3,942	.62%	21,223	.40%
Net profit before taxes	\$ 6,553	1.03%	\$ 108,670	2.03%

¹Richard M. Clewett, Marketing Channels for Manufactured Products (Homewood, Illinois: Richard D. Irwin, Inc., 1954), p. 387.

The voluntary and cooperative groups have been most important to the wholesalers because they have helped them grow from a low volume middle-man to a high volume operation. By helping the independent retailer expand his operation, the wholesaler is insuring himself of a market for his merchandise and services.

Weaknesses of Voluntary and Cooperative Groups

The lack of strong central control is often said to be the major limitation of voluntary and cooperative groups.³⁴ Often times the reluctance of the independent retailers to cooperate or to change their method of operation hinders the ability of the group to compete with the corporate chains. The lack of cooperation of many of the affiliated group members in their refusal to concentrate purchases with the group wholesaler. The reason retailers give for not concentrating their purchases is that they do not like being limited to one source of supply. They also protest to the wholesaler about delivery schedules and many do not like to pay cash for their merchandise. The wholesaler has limited power in forcing members to support the program because the retailers can leave the group at any time.³⁵

Another significant difficulty which hinders the voluntary and cooperative group operations is the attitude many retailers have toward merchandising assistance and supervisors. These retailers feel that the supervisors are trying to run their business and leave them with no authority in operating their supermarkets. It is most important that this type of condition be avoided, so that

³⁴Beckman and Maynard, op. cit., p. 246.

³⁵Lewis, op. cit., p. 121.

the supervisor will be able to assist the retailer in improving his operation. Until the retailers are willing to accept the assistance which is offered, the affiliated groups suffer from their lack of cooperation.

A limitation to the future growth of voluntary and cooperative groups is the difficulty of finding additional wholesalers who have the leadership necessary to start new groups. This same limitation also applies to adding retail stores to existing groups. The voluntary and cooperative movement will grow only when properly qualified wholesalers are developed to build successful affiliated groups of independent retailers.³⁶

The Success of Voluntary and Cooperative Groups

The voluntary and cooperative groups of today have passed the experimental stage of their operation. At the present time well organized affiliated groups are able to maintain their present markets and are actively competing with the corporate chains for new markets. Table IV shows that the voluntary and cooperative groups in 1958 accounted for 45 per cent of the total grocery sales; eleven years ago the affiliated independent retailers had only 29 per cent of the nation's food sales. For this eleven year period the affiliated independents have shown an increase of 16 per cent and in the same period the chains

³⁶Beckman and Maynard, op. cit., p. 246.

have increased their share of market only 2 per cent. In the same period sales of the unaffiliated independents have decreased from 34 per cent in 1947 to 16 per cent in 1958.³⁷ These figures show that the affiliated independent retailers are able to compete with the chains, but it has been through group affiliations that the independents have been able to increase their share of the nation's food sales.

TABLE IV
GROWTH OF AFFILIATED INDEPENDENT RETAILERS¹

Item	1947	1950	1953	1956	1958
Chains	37%	36%	36%	37%	39%
Un-affiliates Independents	34%	31%	25%	19%	16%
Affiliated Independents	29%	33%	39%	44%	45%

¹Robert W. Mueller, "Annual Report on Food Retailing--1958," Progressive Grocer, April, 1959, p. F-18.

The voluntary and cooperative wholesalers have done much work in broadening their lines of merchandise carried to better serve retail members. Table V shows the degree affiliated wholesalers have expanded their lines. This wide line of merchandise shows how well prepared the wholesalers are in terms of providing a one-stop source of supply for affiliated members.

³⁷Mueller, "Annual Report on Food Retailing," op.cit., p. F-18.

TABLE V
WHOLESALEERS BROADEN LINES HANDLED¹

Type of Wholesaler	Per Cent of Wholesalers Handling			
	Fresh Meats	Produce	Drugs	Frozen Foods
Voluntary Group Wholesaler	25	54	78	52
Cooperative Wholesaler	19	73	77	55
Unaffiliated Wholesaler	7	12	86	34

¹Robert W. Mueller, "Annual Report on Food Retailing--1957," Progressive Grocer, April, 1958, p. F-16.

In addition to supplying the retail members with broad lines of merchandise, affiliated wholesalers are now giving members aid in financing new stores. Table VI shows how much assistance independent retailers are getting from their wholesalers in financing new stores.

The success of voluntary and cooperative groups can be shown by the fact that in two national studies of wholesaling it was found that wholesaler-retailer teams are the fastest growing element in the entire United States food industry.³⁸ From 1948 to 1957 voluntaries have had a sales

³⁸Robert W. Mueller, "Food Industry's Newest Success Story," Progressive Grocer, March, 1957, p. 6.

TABLE VI
HOW WHOLESALERS AID IN FINANCING NEW STORES¹

Aid	Per Cent Voluntary Wholesalers	Per Cent Cooperative Wholesalers	Per Cent Unaffiliated Wholesalers
Give extended credit	52	78	32
Assist in obtaining lease	60	63	25
Take lease, sub-let to retailers	29	11	9
Hold mortgage	17	6	6
Guarantee loan	28	20	10
Find sites for new store	61	90	30

¹Robert W. Mueller, "Annual Report on Food Retailing--1958," Progressive Grocer, April, 1959, p. F-19.

gain of 120 per cent while the cooperatives have increased 274 per cent. For the same ten year period the average retail grocery sales increased 76 per cent.³⁹ These figures illustrate the tremendous growth of the voluntary and cooperative groups in the past few years.

The reasons behind the success story of these affiliated groups are due to several factors. But four factors stand out as the most important. They are: (1) low cost

³⁹Address by Robert W. Mueller, National American Wholesale Grocers' Convention, March 10, 1958, Chicago, Illinois.

warehouse operation, (2) mail ordering by retailers, (3) retailer group merchandising and promotions, and (4) one-stop depots.⁴⁰

Through the merchandising programs of voluntary and cooperative groups the position of both the wholesaler and retailer has been improved. The merchandising programs also go a long way in building confidence in the wholesaler-retailer team. One-stop shopping offered by the group wholesalers has enabled the retailer to save much time in buying his merchandise and he can devote more time to his main responsibility of operating a retail supermarket.

⁴⁰
Ibid.

CHAPTER III

THE FLEMING COMPANY--A VOLUNTARY GROUP WHOLESALER

History

In 1895, O. A. Fleming began work in the food industry by operating a general merchandise store in Lyndon, Kansas. In 1915, he decided to go into the wholesale grocery business in Topeka, Kansas, and this was the beginning of Lux Merchandise Company. The company name was changed to Fleming-Wilson Merchandise Company in 1918. Operations continued from the Topeka warehouse until 1935 when an additional warehouse was acquired at Hutchinson, Kansas. Another warehouse was purchased in Oklahoma City in 1941. Also in 1941 the company name was changed to The Fleming Company, Incorporated.

The Fyley-Wilson Grocery Company, of Kansas City, Missouri, was purchased in 1949. In 1951, the Hutchinson, Kansas operation was moved to a new warehouse in Wichita, Kansas. Thus, the company operates four division warehouses and offices located in Topeka and Wichita, Kansas; Oklahoma City, Oklahoma; and Kansas City, Missouri.

The Fleming Company operated as a general line wholesaler until 1927. At this time the company believed that there must be a close working relationship between the independent wholesaler and retailer to meet the competition

of the corporate chains. On January 6, 1927, under the leadership of Mr. Ned Fleming, the company started a voluntary group based on the Independent Grocers Alliance (IGA) group affiliation. In becoming a member of the Fleming IGA group, independent retailers receive merchandising and operational assistance and they were assured of a low cost source of supply. After thirty-two years of group operation the Fleming Company, with 546 affiliated retailers, has become the largest wholesaler using the IGA group plan.

Over the years the company has established nine cash and carry warehouse branches. These warehouses are operated to serve the small independent retailer who cannot purchase in quantity and who cannot be supplied economically except by this cash and carry method. There are approximately 1,500 accounts which are served through these cash and carry branches.

Warehouse Ownership and Organization

The Fleming Company was incorporated under the laws of Kansas on December 6, 1915. The company has an authorized capital stock of 15,000 shares of five per cent cumulative preferred stock at \$100 par value, and 675,000 shares of \$5 par value common stock. The outstanding stock at the present time is 8,000 shares of preferred stock and 358,164 shares of common stock.

The long range planning and policies of the Fleming Company are determined by the seven members on the board

of directors. It is then the responsibility of the company officers to see that the program planned by the board of directors is executed. A management committee has been established in the company to assist the board of directors in long range planning. This management committee is composed of fourteen of the company's officers and staff members. An organization chart for the company's top management is shown in Chart I.

The four division warehouses of the company operate separately with their own manager and a staff of executives. The division manager is responsible for the warehouse operation and reports directly to the president. The buying is done at each division with assistance on special promotions and new products coming from the various staff merchandising directors. The home office also provides each division staff assistance in the store development and advertising. An organization chart for a division is shown in Chart II.

Company Growth and Trading Area

The Fleming Company was an early pioneer in the voluntary group movement. Their plan for retailer-wholesaler teamwork began in 1927 when the warehouse was doing slightly over a million dollars in annual volume. The company and its retail members have grown tremendously since the beginning of the teamwork plan with independent retailers thirty-two years ago. In 1958, the company had a wholesale

CHART I

ORGANIZATION CHART OF THE FLEMING COMPANY

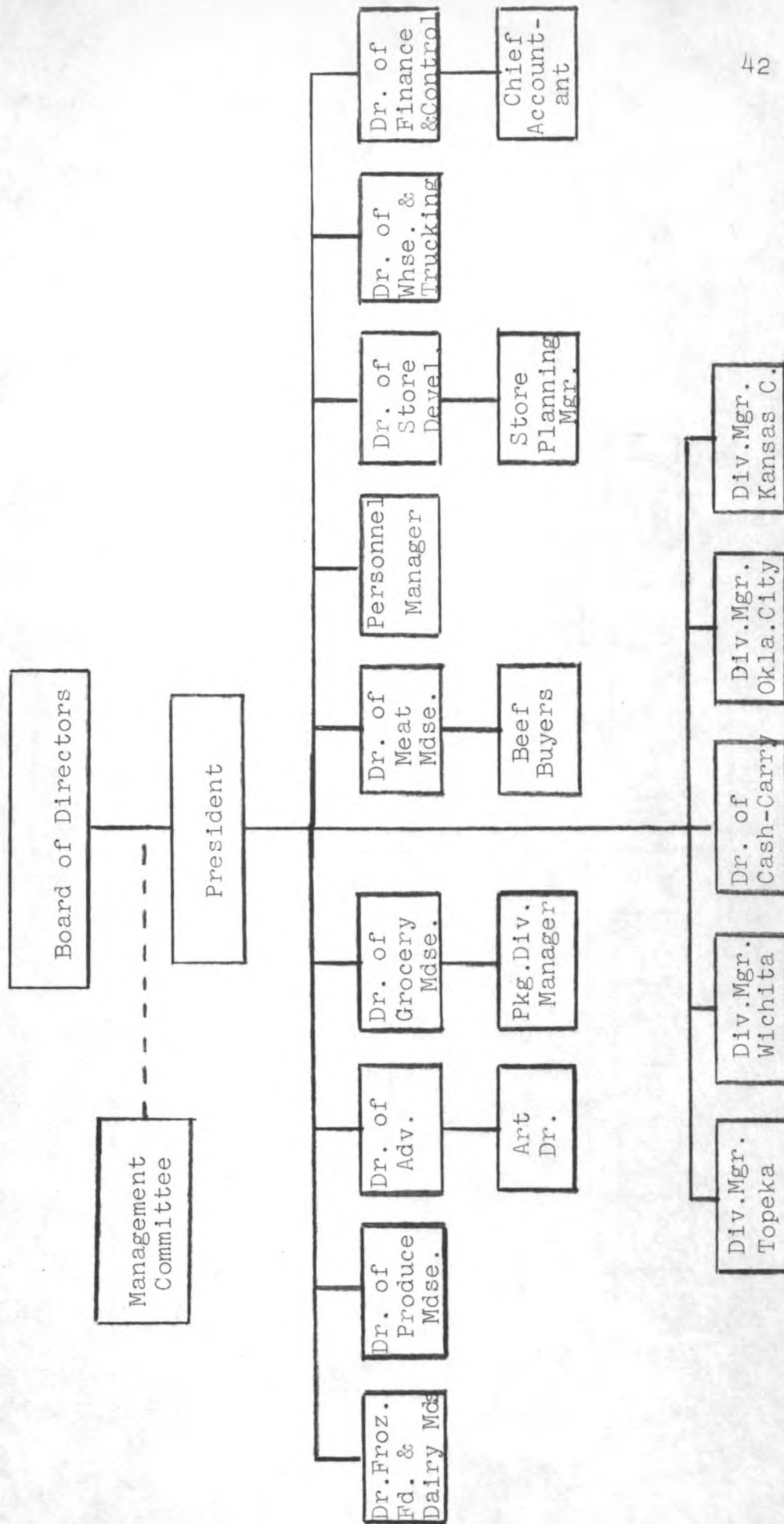
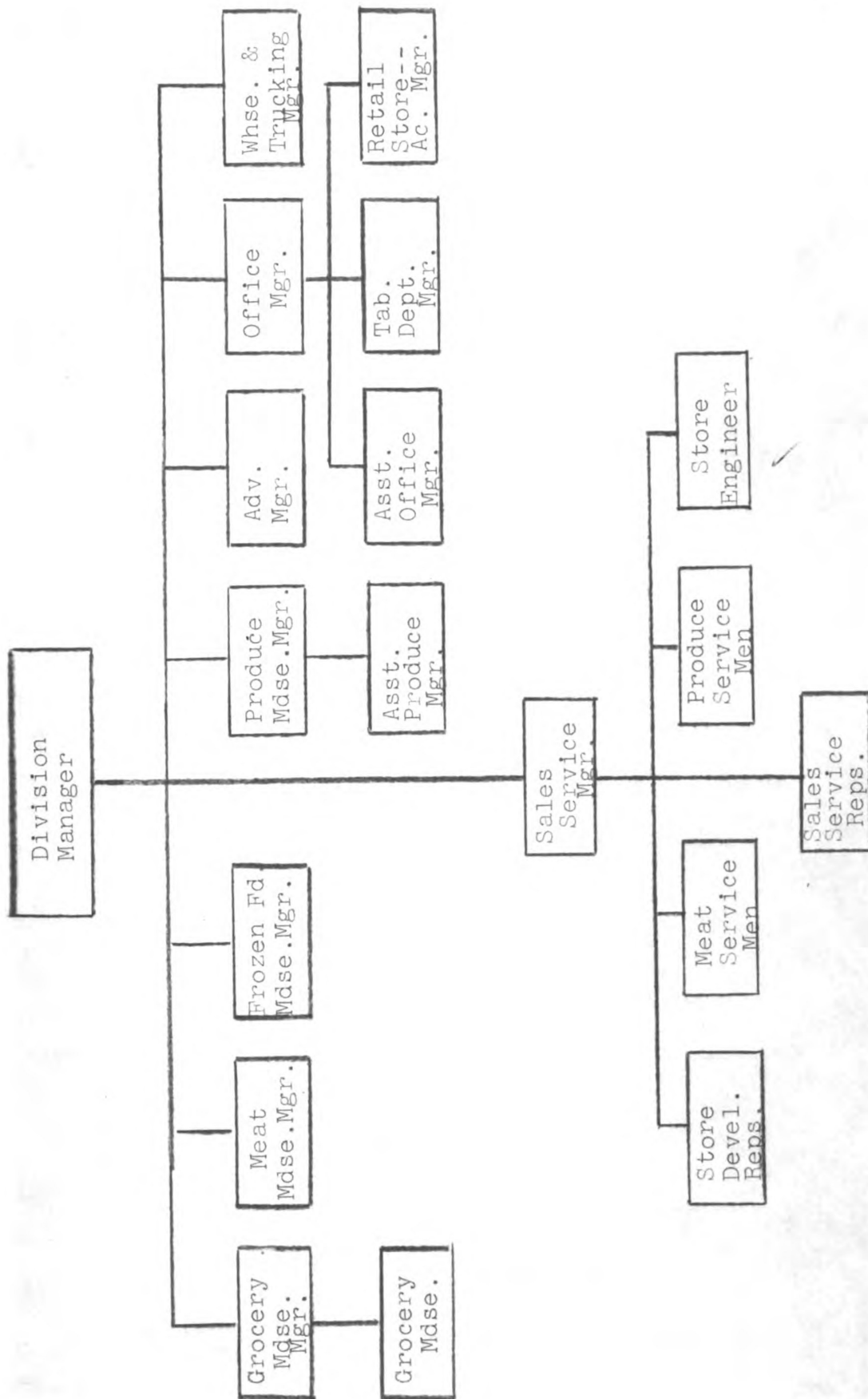


CHART II

FLEMING DIVISION ORGANIZATION CHART



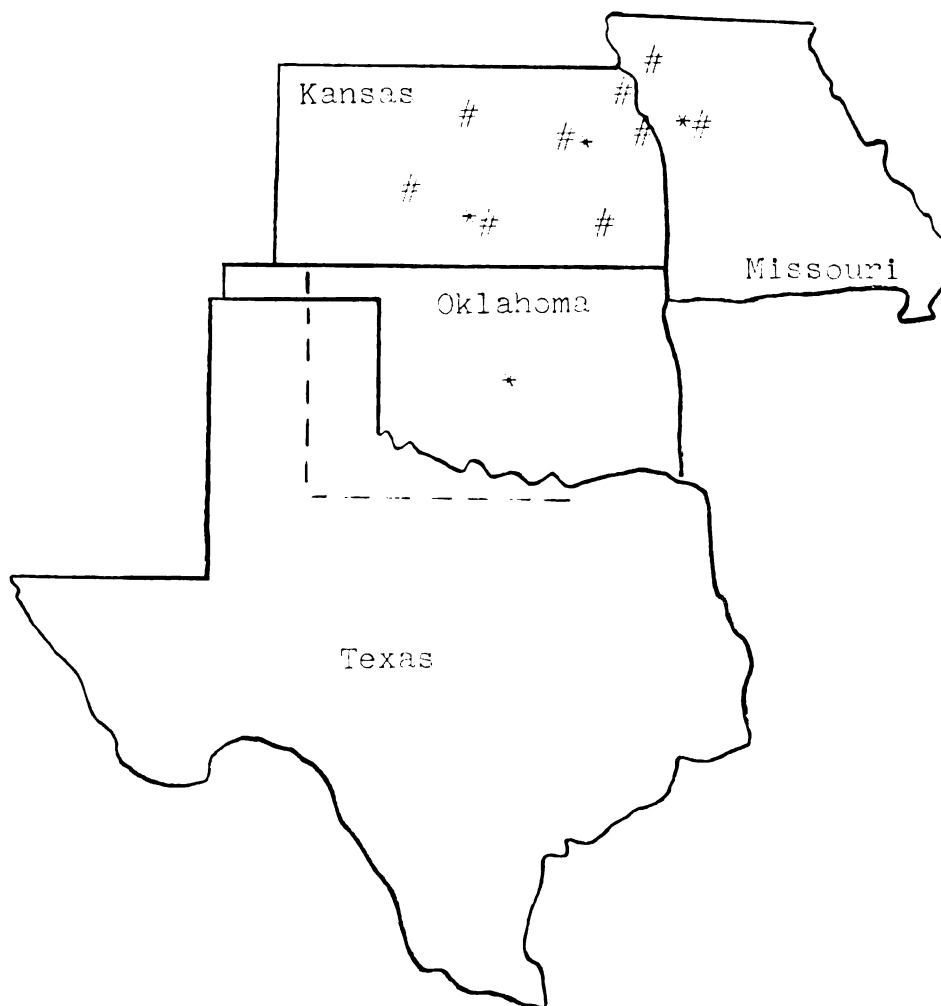
sales volume of \$124,892,897 million and it is estimated that its 546 affiliated retail members had sales of over \$220 million. This warehouse sales volume comes from the handling of a complete line of dry groceries, produce, frozen foods, meat, dairy, and bakery products. Table VI shows the sales growth of the company since the beginning of the voluntary group in 1927.

TABLE VI
FLEMING COMPANY SALES PROGRESS

Year	Wholesale Annual Sales
1927	\$ 1,382,952
1929	1,766,210
1931	1,529,161
1933	1,420,977
1935	2,861,160
1937	4,167,410
1939	4,741,789
1941	6,468,428
1943	10,744,650
1945	12,909,903
1947	19,011,092
1949	28,383,662
1951	43,838,199
1953	62,474,954
1955	87,598,270
1956	100,002,787
1957	112,706,113
1958	124,892,897

The 546 affiliated retail stores serviced by the Fleming Company cover a four state area. Chart III shows the trading area of the Fleming Company and the location of the four division warehouses and nine cash and carry warehouses.

CHART III
TRADING AREA OF THE FLEMING COMPANY



*Division Distribution
Centers

Topeka, Kansas
Wichita, Kansas
Kansas City, Missouri
Oklahoma City, Oklahoma

#Cash and Carry
Divisions

Topeka, Kansas
Hutchinson, Kansas
Leavenworth, Kansas
Wichita, Kansas
Atchison, Kansas
Salina, Kansas
Independent, Kansas
Kansas City, Missouri
St. Joseph, Missouri

The company's marketing area is centered in Kansas and Oklahoma with a concentration of affiliated stores in the Wichita, Topeka, and Oklahoma City areas. Western Missouri and northern Texas also have many affiliated stores. In each of these states, except Missouri, retail stores operate under the IGA franchise. In Missouri the group name for franchise stores is United Supers. In both the IGA and United Supers, there are certain requirements and standards that the retailer must agree to before a franchise is given. These retailer requirements are shown in Appendix A. The company also has retail stores which are served by the warehouse but cannot use the group name or buy the IGA label merchandise. These stores are called contract stores and pay the same prices for merchandise sold by the warehouse.

The Fleming Company's Sales Service Plan

The Fleming Company was an early pioneer in retailer-wholesaler teamwork when they began their voluntary group plan in 1927. For the past thirty-two years this plan, now known as the sales service plan, has been constantly improved and enlarged to help its independent retail members grow and make their operations more profitable.

The Fleming Company feels that their sales service plan has made it possible:

1. To lower cost of distribution at the retail level.

2. To lower merchandise costs so retail members can be competitive on every item with major competition.
3. To eliminate all unnecessary expense.
4. To provide retailers with tools for accurate store control.
5. To provide retailers with complete service some better chains provide their own stores.⁴¹

Under the sales service program all dry groceries, frozen food, non-foods, and health and beauty aids are sold on a cost plus basis. Cost is referred to as the manufacturer's total invoice billing price delivered to the company warehouse, less any free deals, and less all trade quantity discounts.⁴² The company also reserves the right to adjust all items carrying a discount less than two per cent to a two per cent basis. But in most cases this right is not used. Other merchandise such as produce, meat, dairy products, and bakery items are sold to members on a percentage mark-up basis.

In an effort to eliminate all unnecessary expense in the wholesale operation The Fleming Company has certain practices which the retailer members must follow in buying merchandise. Orders must be made out in the weekly pre-printed order book and mailed in on the pre-arranged schedule. Signed blank checks must be sent with the orders for

⁴¹"A Plan for You," The Fleming Company, unpublished material from company files.

⁴²Ibid.

payment of all merchandise and weekly fees. Retailers are expected to help unload the wholesaler's truck to speed up delivery. To help reduce the cost of return merchandise the retailers are expected to cooperate in eliminating the return of merchandise. The warehouse gives an allowance of one-tenth of one per cent on dry groceries to cut the cost of return of these items.

While the Fleming Company provides its retail members with a low cost source of supply, this is not the only advantage of the sales service plan. The company management feels that their responsibility to the retailer does not end until the merchandise is sold to the consumer. Therefore, the merchandise sold to retail members is not considered sales but rather transfers and sales result at the retail store. To help the member stores increase sales and profit much assistance is offered to them through the sales service plan. To illustrate the success of the sales service plan for retailer-wholesaler teamwork, in the past ten years the Fleming Company's warehouses have shown an increase in sales of 526 per cent.

Merchandise Program

The Fleming Company warehouses offer the retailers a complete line of merchandise in groceries, meat, dairy, non-foods, health and beauty aids, produce, and bakery products. Drop shipments can also be made by the retailer through the wholesaler for products not carried in the

warehouse. The company believes that they are able to supply around seventy-five per cent of all merchandise needed by the retailer. The merchandising program for all products supplied by the warehouse will not be described.

Grocery program. The Fleming warehouse provides the retail stores with a wide variety of fast turnover advertised brands plus controlled labels on key items. These controlled IGA labels permits the retailer to meet or be below competition on competitive items. The IGA label merchandise is sold only to member stores. The grocery items along with the health and beauty aids are ordered from the wholesaler on a pre-printed order form. This order form provides the retailer with such information as the pack and weight of the merchandise, its cost, a suggested retail price, and the per cent of profit if sold at this price. The suggested retail price is offered to the retailer to help him in having his merchandise competitively priced. All health and beauty aids are pre-priced at the warehouse to save the retailer the time and expense of doing this job. Grocery merchandise is ordered once or twice a week on a pre-arranged schedule. The grocery department now offers the retailer approximately four thousand items and new products are constantly being added. Sales of these grocery products account for more than fifty per cent of the warehouse total sales and a greater share of the merchandise inventory.

Produce program. Produce products are purchased by the Fleming Company and stored in their warehouse. The retailers are sent daily order forms listing all items and their current prices. The retailer phones in his orders to the warehouse and receives daily delivery service. The produce buyers keep in contact with the growing areas through field buyers. This enables the warehouse to stock a wide variety of merchandise the year around.

The wholesaler provides the retailers with a weekly price survey on produce sold by major competition. This service is provided to the retailer so he can be competitive on all produce items. The retailer also receives weekly market analysis and information so in planning special promotions the store owners will be able to take advantage of special prices and seasonal items. The sales of the product department are increased by consistent advertising each week.

Frozen food program. Frozen foods are purchased by the retailer from order forms sent out by the wholesaler each week. This order form is very similar to the one used by the grocery department. It gives the retailer the cost of the merchandise, a suggested retail price, and the per cent of profit if sold at that price. The retailer phones his order in to the warehouse on a pre-arranged schedule and delivery is usually made with the other perishable products. The retailers are assured of

receiving their frozen foods in good condition because of the modern warehouse facilities and careful attention to the handling and shipping methods.

The warehouse offers the retailer a complete line of frozen food products in both nationally known brands and controlled labels. The T.V. control label is available in twenty-one items and it offers the consumer top value but at minimum prices. The national brands are stocked in all items but have a slightly higher price than the control brands. The frozen food items have four weekly advertising promotions and many special sales are conducted each year.

Meat program. The warehouse now has a complete meat supply program for retail members. Under this program an order form is sent to the retailer listing the types of meat available and the approximate price. The retailer then phones in the order to the warehouse at his scheduled time. The retailer can specify the packer he wants his fresh meat purchased from, but the warehouse recommends that they do not follow this because it hinders the buyers in taking advantage of special buys. Since the warehouse combines orders from its many retail members into quantity purchases, fresh meat is purchased at the lowest possible price. No one retailer would be able to receive these prices in doing his own buying. The central buying program offers the retailer the advantage of not having to spend time and effort dealing with the many meat packer salesmen

each week. This job can be very time consuming for the retail store manager and central buying relieves him of this responsibility. Central buying also offers the advantage of experienced meat buyers at the warehouse and the meat selectors at the packing house. The job of these selectors is to maintain quality of all meat sold in the IGA group stores. This quality control program assures the retailer that he is getting controlled quality meat at the lowest possible price. All fresh meat is shipped to the retailer in the packers trucks but the merchandise is billed through the warehouse.

An inventory of prepared and brand meat products is kept in all Fleming warehouses. The retailer can order these items from the order form that is sent to him and it is shipped to him with the other perishable products. The warehouse offers the retailer a complete competitive pricing program for all meat items and the per cent of profit made if sold at these prices. The meat department receives weekly newspaper advertising and store promotional material is offered the retailer to support this advertising. Special meat sales are also held throughout the year.

Dairy program. The dairy program of the Fleming Company now offers a complete line of the products to the retailer. To supply retail stores with most dairy products the company select the leading dairy company in each of its marketing areas. This dairy company supplies IGA member

stores with a complete line of dairy merchandise and the T.V. brand control label products on a cost plus basis. This merchandise is billed through the warehouse but delivery is made by the dairy. The dairy supplies eleven T.V. brand items which are sold only to IGA stores. This arrangement helps the member store receive dairy products at a lower price through group purchases and it also gives them a quality control label.

The warehouse carries an inventory on other dairy items such as margarine, cheese products, lard, and other national brand dairy products. These items are purchased by the retailer from an order form and are shipped with the other perishable products. The dairy department gets weekly advertising support along with special promotions throughout the year.

Bakery program. The Fleming Company owns the Certified Bakery Company which provides most of the retail stores with bakery products. The purpose of the wholesaler owning the bakery is to have a quality line of control label products at the lowest price. The merchandise is delivered fresh daily to the member stores by the bakery but the purchases are billed through the warehouse.

The company has recently started a new program of helping the larger supermarkets develop baking departments in the stores. The warehouse assists the store owner in his equipment selection, merchandising programs, and the

selection and training of personnel. In-store bakeries are placed in supermarkets only after a survey shows that such investment will result in a profitable operation.

Manufacturing program. In 1948, the Fleming Company purchased the Golden Wedding Coffee Company and the name was changed to Certified Brands, Incorporated. This subsidiary company is engaged in importing, roasting, and packing Fleming brand control label coffee. The Fleming Company also has a packaging division for control label products such as tea, candy, nuts, dried fruits, dried vegetables, macaroni products, and popcorn. The purpose of this manufacturing and packaging division is to provide retail members competitively priced merchandise as well as a top quality control label.

Retail Assistance Offered by the Fleming Company

While the Fleming Company is a wholesale organization, its management feels that the growth of the company depends on the success of its retail members. In an effort to help the retail store owners improve their operations the company started retail assistance in 1946 under the sales service plan. This assistance is in the form of special services to the retailer such as retail operating guidance, advertising, training schools, retail accounting, and others. The Fleming Company feels that these services have played a most important part in the growth and success of both their warehouse and the affiliated retail members.

Retail operating assistance. The Fleming Company has a staff of forty-five sales service men who spend their time entirely in the stores helping the owner with his problems and assisting in future planning. Since retail members voluntarily affiliate with the group they cannot be forced to follow all company programs, but members are expected to cooperate with the sales service men. These sales service men are very similar to the supervisors used by the corporate chains. These men usually have between fifteen and twenty member stores for which they are responsible. The exact number depends on the size of the supermarket and distance between stores. There is no certain schedule these men keep in calling on the stores, but the company believes these men should call on every member at least once every two weeks. In most cases the visits are much more frequent than this.

The exact assistance the sales service men are to give the retail members are:⁴³

1. To counsel store owners in effective methods of retail food operation for maximum sales and net profit.
2. To assist in sales and merchandising planning.
3. To conduct sales training meetings for store personnel.
4. To keep owners informed on competitive pricing policy.

⁴³
Ibid.

5. To provide help and guidance for remodeling and new store openings.
6. To assist store owners in future planning for remodeling and expansion.
7. To report to the warehouse all suggestions by store owners for improved service.

The sales service men are trained to give assistance in the general operation of a supermarket. But should any special problem arise the sales service men can call in specialists in produce, meat, engineering, frozen foods, and dairy. These specialists work with the retailer until the problems are solved. The specialists also work with the retailers for special promotions throughout the year.

The sales service men give assistance in the entire store's operation, but they also spend much time in planning special merchandise programs. This retail operating guidance is offered to member stores at no additional cost, but their cooperation is expected in the program.

Retail accounting. The warehouse has a complete retail accounting program for retailer members. This program gives the stores periodical operating reports which gives the owners an up-to-date picture of his financial progress. The accounting service provides the stores operating reports, balance sheets, payroll tax records, sales tax, and income tax service.

The reason the warehouse began this program was that they had found that many retailers were not able to keep

adequate operating records to be used for tax and management purposes. Also, the accounting work took much of the owner's time which could have been better used in planning the operation of his store. The company also found that in doing this work for all the member stores, the cost to the retailers would be much lower than having public accounting firms do the work.

The operating reports play an important part in the operating assistance given the retailers. From the reports the wholesale management is able to analyze the store's operation and make recommendations for improvement. It is then the job of the sales service men to discuss these reports and recommendations with the retailer. The accounting program also gives the retailer a comparative operating report of the other IGA supermarkets to show him how well his operation compares to other successful stores. All information is kept confidential and no retailer knows what supermarkets are being used in the comparison.

Advertising. The advertising program offered affiliated retail members is a most complete and effective service. The wholesaler provides the members with a mail service, weekly direct mail circulars, radio and television advertising, in-store promotion material, and the collection of advertising allowances.

The theme and products featured in the newspaper advertisements are determined by the merchandising committee

and the advertising department. After the mats have been made they are sent to the retail members using this service. The stores' owners in each city have the right to add some items to the advertisement but none of the major featured items can be changed. The IGA retailers are not charged for this mat service but each retailer must help pay the cost of running the weekly double truck or full page advertisement in the leading paper in the trading area. Each retailer will pay his share of the newspaper advertising based on the per cent of the total business done by his IGA store in the area. Each week the Fleming Company provides mat service for advertisements in 284 newspapers which reach five and one-half million homes. This illustrates the effective use that the group is making of this most important advertising media.

Weekly direct mail advertising is provided to the retailer at a very low cost. The warehouse determines the theme and main items to be advertised and the retailer can add some items and set the prices on the feature items. This advertisement is printed by the warehouse and mailed to the families in the store's trading area. Each retailer gets his own name and address printed on the direct mail advertising that will be mailed to customers in his area.

The warehouse has a radio and television advertising program for its retail stores. Under this program the warehouse prepares spot radio commercials and one-half hour

television programs for the IGA groups. The trading area using this advertising pays only the actual cost of the programs.

The warehouse tries to take advantage of all advertising allowances offered by the manufacturers. When these allowances are earned the wholesaler collects them from the manufacturer and pays the retailers the amount they have earned.

The main advantages of the advertising program is that the retailers are receiving a well-planned advertising program that has proved to be most effective. Also, by group advertising each retailer is able to advertise on a large scale while paying only a small portion of the total cost.

Store development program. One of the most important services the Fleming Company offers to the independent retailers is their store development program. The company has found that store development is most vital because the groups tremendous growth has been in the new and remodeled IGA supermarket. The goal of the store development program is to insure the sound development of maximum volume supermarkets with modern facilities.

The services of the store development includes:⁴⁴

1. Scientific market studies to determine the potential of specific trading areas for new stores.

⁴⁴Ibid.

2. Maintenance of sound relationship with realtors and shopping centers' developers to insure availability of potential locations.
3. Location surveys which will estimate the potential store sales accurately and scientifically. These forecasts include:
 - a. A determination of the market area.
 - b. Population density and characteristics.
 - c. A comprehensive analysis of the amount and types of food expenditures in the area.
 - d. Economic rating of the area.
 - e. Determination of competitive supermarkets.

The store development department is located at the staff office in Topeka and each division warehouse has men who spend their full time planning new supermarkets in their area. The responsibility for store development does not rest with this department alone because the planning of new stores takes the work of many people. The sales service men play an important part in interesting retailers in new supermarkets and they also assist in finding good supermarket locations in their territories.

After the site for a new supermarket has been selected it is the job of the store development department to help the retailer finance his new store. Since the modern supermarket of today requires a tremendous investment most independent retailers are not able to raise the capital requirements alone. For this reason the Fleming Company has felt it necessary to offer retail members financial assistance in developing new stores. Also, in the

development of shopping centers the independent retailer has difficulty in getting a location, but with the support of the wholesaler these important locations can be obtained.

The financial assistance offered the retail members by the Fleming Company is to lease buildings to the retailers. The Fleming Company will take a lease from the owner of the building and then sub-lease it to the retailer. The leases normally run for fifteen years and the rent is usually based on a flat fee plus a per cent of total sales. The only charge the wholesaler places on the retailer for this financial assistance is a small override fee on the lease.

In selecting retailers for these new stores the company feels that an owner must have proven that he has the ability and leadership to successfully operate a modern supermarket. Most new stores are leased to men who presently own one or more IGA stores in the group and have proven their ability as store owners. The company requires the owner to have the money for his inventory and operating capital to get the new store started. The owner must also be able to pay twenty-five per cent down on his fixtures. Because of the importance the company places in the store development department, all of their services are provided to the retail members free of charge. In 1958, this department was responsible for eight new supermarkets and seventy-four remodelings of existing stores. The company expects

the 1959 figures to be much larger as store expansion continues.

Working under the store development department is the store engineering services provided for the retailers. These services include complete construction plans for new supermarket building and equipment and layout plans for remodeling or new stores. Each division warehouse has the staff to prepare complete store remodeling plans for the retailers. The plans for new supermarkets are done by the engineering department in the staff office. This is done so the company's officers can assist in planning these new stores. The engineering service also includes stocking patterns for all merchandise. By using this merchandise layout system, better turnover is achieved in all departments. The engineering service is offered to the retail members at no cost to them.

The company can also save its retailers money in purchasing equipment in quantity direct from the manufacturer. These savings can be large when equipment is being purchased for new supermarkets. The equipment is shipped to the retailer but is billed to the wholesaler. In buying through the wholesaler the retailer is getting the same discounts given the corporate chains.

Training schools. The company offers a complete training program for all personnel in the retail stores. The sales service men are experienced at conducting training

in the stores. The company has prepared training manuals in retail accounting, frozen food, meat, produce, and grocery merchandising, which has proven to be most successful in training store employees.

To supplement this in-store training the company has set up training schools at each division warehouse. These schools provide checker, meat, frozen food, and produce merchandising training. In an eight month period last year fifty-one training schools were held for 287 people from retail member stores.

Company publications. The Fleming Company furnishes each of its retail members with the national IGA magazine, The Grocergram. This magazine is issued monthly and contains merchandising and sale suggestions, and news of general interest.

The company also has their own magazine, The Food Circle, which is periodically mailed to the retailers. The purpose of this magazine is to give advanced information on coming sales events, suggestions on store operation, price trends, and crop conditions. In addition to these magazines each division warehouse prepares weekly bulletins on all merchandise lines. These bulletins contain information on new products, price changes, and special promotions. The purpose of these publications is to keep retail members informed and promote a better understanding between the warehouse and its retail members.

Warehousing and transportation. The low operating cost the company has been able to maintain at its four division warehouses has been an important service to retail members. As a result of this low cost of operation, merchandise can be sold cheaper to the retail members. Three of the divisions operate out of modern warehouses which have modern storage facilities for all merchandise sold by the company. Early in 1959 construction was begun on a new warehouse in Topeka. When completed this warehouse will be one of the most modern grocery distribution centers in the area.

The company owns its own fleet of trucks for the delivery of merchandise to member stores. All deliveries are made on a pre-arranged schedule with the retailers. In most cases the retailer receives about two deliveries of dry groceries a week and perishables are delivered three to six times a week, depending on the location of the stores. Any store can get a special load any time they purchase a straight load of merchandise. The trucking department is operated most efficiently and the rates paid by the retailer are much lower than those charged by the public carriers.

Fee Schedules of the Sales Service Program

The Fleming Company operates their sales service program on a cost plus basis. All dry grocery, dairy, meat, and frozen food merchandise is sold to member retailers at cost with a low fee based on dollar volume. Table VII is

TABLE VIII

FEE SCHEDULE FOR DRY GROCERIES, NON-FOODS, AND HEALTH
AND BEAUTY AIDS--MINIMUM WEEKLY FEE--\$17.80¹

Sales after minimum:

65¢ per week for each \$100 bracket of purchases
(2.6%) up to \$50,000 per period

43-3/4¢ per week for each \$100 bracket of purchases
(1.75%) on all over \$50,000 per period

Purchases (4 week period)	Weekly Fee
\$ 000.00 -- 999.99	\$17.80
1,000.00 -- 1,099.99	18.45
1,100.00 -- 1,199.99	19.10
1,200.00 -- 1,299.99	19.75
1,300.00 -- 1,399.99	20.40
1,400.00 -- 1,499.99	21.05
1,500.00 -- 1,599.99	21.70
1,600.00 -- 1,699.99	22.35
1,700.00 -- 1,799.99	23.00
1,800.00 -- 1,899.99	23.65
1,900.00 -- 1,999.99	24.30
2,000.00 -- 2,099.99	24.95
2,100.00 -- 2,199.99	25.60
2,200.00 -- 2,299.99	26.25
2,300.00 -- 2,399.99	26.90
2,400.00 -- 2,499.99	27.55
2,500.00 -- 2,599.99	28.20
2,600.00 -- 2,699.99	28.85
2,700.00 -- 2,799.99	29.50
2,800.00 -- 2,899.99	30.15

¹These few figures are given to illustrate the fee paid by the retailer for this merchandise.

an example of the fee schedule for dry groceries, non-foods, and health and beauty aids. Table IX shows the fee schedule for all frozen food merchandise purchased by the retailer. All produce and fresh meat items are sold on a mark-up basis. Retailers receive a weekly price list on these products showing the price they will pay.

For the many services offered by the wholesalers, the retailer has to pay only for the retail accounting, radio and television advertising, direct mail advertising, and transportation. All IGA member stores must pay \$1.20 per week for the national IGA membership fee. No charges are made for store development and engineering services, weekly newspaper mat services, weekly window posters, advertising and decorations for special promotions, and the assistance of the sales service men. Table X, on page 68, shows the fee schedule for the store accounting service. Table XI on page 68, shows charges for direct mail advertising. Table XII, on page 69, illustrates the charges to retailers for transportation.

Success of the Sales Service Program

The success of the Fleming Company's sales service program is indicated by the tremendous sales growth the company has had since starting this wholesaler-retailer teamwork in 1927. Also the success of the program is indicated by the number of high volume modern supermarkets

TABLE IX

FEE SCHEDULE FOR FROZEN FOOD MERCHANDISE--MINIMUM WEEKLY
FEE--\$2.50¹

Sales after minimum:

- 25¢ per week for each \$10 bracket of purchases up to \$200 per period
- 20¢ per week for each \$10 bracket of purchases up to \$600 per period
- 15¢ per week for each \$10 bracket of purchases up to \$1,000 per period
- 15¢ per week for each \$10 bracket of purchases up to \$1,000 per period

Purchases (4 week period)	Weekly Fee
00.00 -- 100.00	2.50
100.01 -- 110.00	2.75
110.01 -- 120.00	3.00
120.01 -- 130.00	3.25
130.01 -- 140.00	3.50
140.01 -- 150.00	3.75
150.01 -- 160.00	4.00
160.01 -- 170.00	4.25
170.01 -- 180.00	4.50
180.01 -- 190.00	4.75
190.01 -- 200.00	5.00
200.01 -- 210.00	5.20
210.01 -- 220.00	5.40
220.01 -- 230.00	5.60
230.01 -- 240.00	5.80
240.01 -- 250.00	6.00
240.01 -- 260.00	6.20

¹These few figures are given to illustrate the fee paid by the retailers for frozen foods.

TABLE X
STORE ACCOUNTING SERVICE FEE SCHEDULE¹

Monthly Sales Up to		Fee per Week
\$ 000.00 --	7,500.00	\$ 5.00
7,500.00 --	10,000.00	5.50 -- 6.00
10,000.00 --	12,500.00	6.50
12,500.00 --	15,000.00	7.00
15,000.00 --	17,500.00	7.50
17,500.00 --	20,000.00	8.00
20,000.00 --	25,000.00	8.50
25,000.00 --	30,000.00	9.00
30,000.00 --	35,000.00	9.50
35,000.00 --	40,000.00	10.00
40,000.00 --	45,000.00	10.50
45,000.00 --	50,000.00	11.25
50,000.00 --	75,000.00	12.00
75,000.00 --	100,000.00	12.75
100,000.00 --	125,000.00	13.50
125,000.00 --	150,000.00	14.25
150,000.00 --	175,000.00	15.00
175,000.00 --	200,000.00	15.75
200,000.00 and over		

¹Members are billed for the cost of journal, ledger, weekly store report binders and pads, and other supplies used in keeping the records.

TABLE XI
ADVERTISING FEE SCHEDULE--FEE FOR DIRECT MAIL¹

Number	Fee	Number	Fee
250	\$3.85	650	\$7.55
300	4.50	700	7.90
350	5.10	750	8.25
400	5.60	800	8.60
450	6.10	850	8.95
500	6.50	900	9.30
550	6.85	950	9.65
600	7.25	1000	10.00

¹\$8.50 per 1,000 for all quantities. Newspaper National Service--no charge; Weekly Window Posters--no charge; Special Promotion Material--no charge.

TABLE XII
FREIGHT RATES FOR OKLAHOMA CITY DIVISION

City Rates				
Items		Charge		
Grocery and meat items		11¢ per cwt		
Frozen food		15¢ per cwt		
Produce		No charge		
Out of Town Rates ¹				
Oklahoma City To	Mileage	Groc.-Produce Meat Rates ²	Sack Goods Rate	Frozen Food Rate
Edmond, Okla.	12	19	15	22
El Reno, Okla.	28	21	15	27
Purcell, Okla.	36	21	15	27
Hydro, Okla.	62	31	15	37
Apache, Okla.	85	31	15	45
Blackwell, Okla.	107	36	15	52
Sentinel, Okla.	123	36	15	45
Wichita Falls, Texas	155	41	15	51
Wheeler, Texas	182	49	15	55
S. Coffeyville, Kansas	210	49	15	55
Clarendon, Texas	251	49	15	55

¹These few cities were chosen to illustrate the freight rate paid by member stores.

²Per hundred weight.

which are owned by members of the affiliated group. In Table XIII is shown an operating statement for a typical IGA member supermarket. This statement shows that the retailer has a low cost operation and his sales service assistance is costing him a small per cent of total sales. These two facts can be listed as the reasons for the success of both the Fleming Company and its independent retail members.

TABLE XIII

STATEMENT OF OPERATION FOR A TYPICAL IGA SUPERMARKET
From 12-27-58 to 4-11-1959

<u>Department</u>	<u>Sales</u>	<u>Per Cent of Total</u>
Groceries	\$231,558.13	68.16
Meat	82,310.03	24.23
Produce	<u>25,854.46</u>	<u>7.61</u>
Total Sales	\$339,722.68	100.00
Average Weekly Sales	\$ 22,648.18	
	<u>Gross Profit</u>	
Groceries	\$ 40,618.13	17.54
Meat	14,403.27	17.50
Produce	<u>8,192.50</u>	<u>31.69</u>
Total Gross Profit	\$ 63,213.90	18.61
	<u>Controllable Expenses</u>	
Advertising	\$ 5,753.33	1.69
Bad Debts	(91.03)	(.03)
Charity and donations	27.00	.01
Delivery expense	221.67	.07
Dues and licenses	144.00	.04
Insurance expense	579.19	.17

TABLE XIII (Continued)

	<u>Controllable Expenses</u>	<u>Per Cent of Total</u>
Utilities	\$ 1,521.45	.45
Repair and maintenance	1,524.63	.45
Salaries--Groce. Dept.	9,336.94]	
Salaries--Meat Dept.	4,299.71]	
Salaries--Produce Dept.	2,827.41]	5.29
Salaries--Proprietor	1,500.00]	
General expense	912.76	.27
Store supplies	<u>3,131.22</u>	<u>.92</u>
Total Controllable Expense	\$ 31,688.28	9.33
	<u>Uncontrollable Expenses</u>	
Depreciation and amortization	\$ 694.20	.20
Freight	3,212.04	.94
Rent	5,524.49	1.63
Store accounting	192.00	.06
Taxes--Personal Property	232.35	.07
Taxes--payroll	553.98	.16
Sales Service fee	<u>5,865.71</u>	<u>1.73</u>
Total Expenses	\$ 47,963.05	14.12
NET OPERATING PROFIT	\$ 15,258.29	4.50

*Inventory turnover per month: Total Inventory 2.90;
groceries 2.25; meats 7.76; produce 9.10.

CHAPTER IV

SPARTAN STORES, INCORPORATED--A RETAIL-OWNED COOPERATIVE WAREHOUSE

History

On December 27, 1917, a group of Grand Rapids, Michigan, independent food retailers pooled their resources to organize a cooperative grocery warehouse. By having their own warehouse these retailers were trying to increase their buying power and thus lower their cost on merchandise. The original warehouse was a freight car on a siding and an office with two employees. The warehouse began operation under the name of Grand Rapids Wholesale Grocery Company.

The cooperative warehouse began its operation under the leadership of the late Frank L. Marty, who was president and general manager from 1918 to 1939. Despite the country's fluctuating economy in the 1920's and 1930's, the company had a steady growth and development under Mr. Marty's leadership.

H. G. Stanton, a pioneer food retailer in the Grand Rapids area, served as president of the company from 1939 to 1941, and at this time, Matt Heyns became general manager. L. V. Eberhard, a leading independent retailer in Grand Rapids, served as the company's third president from 1941

until 1955, at which time the board of directors elected Roman C. Feldgausch, the current president.

In 1947, Joseph G. Foy was appointed General Manager, an office which he holds at the present time. Since being appointed, gross sales of the company have increased from about seven million dollars annually to the present level of sixty-two million dollars.

Six years ago the members adopted the "Sign of the Spartan" as the group symbol. Because of the tremendous public acceptance of this trade mark the board of directors decided to change the name of the warehouse to Spartan Stores, Incorporated.

Spartan Stores, Incorporated operates as a retailer-owned grocery wholesaler for the independent retailers who are owners of the company. The warehouse serves only those retail stores which are members of the group. In becoming a member of the Spartan Stores group, the independent retailer is getting a low cost source of supply and special retail assistance offered all members. Also the retailer has a voice in the operation of the warehouse. After forty-one years of operation the warehouse now serves around 484 independent retail members.

In addition to the warehouse, Spartan Stores, Incorporated, owns the Grand Rapids Coffee Company. This is a subsidiary company which processes a control label coffee which is sold only in stores which are members of the

Spartan group. The company also owns three cash and carry warehouses in addition to the main warehouse in Grand Rapids. These cash and carry warehouses have been established to serve the smaller independent retailers who are not members of the Spartan group. These warehouses are located in Grand Rapids, Kalamazoo, and Flint, Michigan.

Warehouse Ownership and Organization

Since Spartan Stores, Incorporated, is a retailer-owned warehouse it is owned by the retail members. In order to become a member of the group a retailer must make application to the board of directors of Spartan Stores. The directors have the power to accept or reject the applicant. If accepted the retailer must agree to concentrate his purchases with the warehouse and support the merchandise and advertising program of the group. He must also display the Spartan decal in his store. The cooperative does not require the retailer to sign a formal contract to become a member.

A new member makes an initial investment in the cooperative of \$1,000.00 of class A stock. This is his voting stock and each member has one vote. Any member who has more than one retail store must purchase additional class B stock which is non-voting. In addition to the class A stock, every member must also have a buying deposit in the warehouse which is called class B. stock. The purpose of this buying deposit is to give the warehouse

capital to purchase merchandise and pay the cost of operation. The minimum buying deposit a retailer can have in the warehouse is \$500 and if his average weekly purchases exceed this amount the required buying deposit increases. The average weekly purchases are computed each December for every retail store and are considered constant for the ensuing year. Table XIV shows the schedule used by the warehouse in determining the required buying deposit each retail store must make. A new member can buy merchandise from the warehouse only after he has been accepted by the board of directors and he has purchased his required stock in the retailer-owned warehouse.

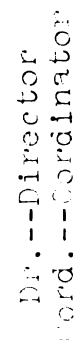
Every retail member of the Spartan warehouse is a stockholder in the company. At the annual convention in May the stockholders meet to elect a nine-man board of directors. The directors elect the company officers and appoint a general manager who is responsible for all company operations.

The long range planning and policy formulation of the company are determined by the board. These policies are executed by a general manager through whatever personnel he deems necessary for the proper and efficient operation of the company. An organization chart for the company is shown in Chart IV.

TABLE XIV
BUYING DEPOSIT SCHEDULE--CLASS B STOCK

Average Weekly Purchase	Required Buying Deposit	Required Total Investment (Class A & B Stock)
\$ 000- 500	\$ 500	\$1,500
500- 1,000	800	1,800
1,000- 1,500	1,000	2,000
1,500- 2,000	1,200	2,220
2,000- 2,500	1,400	2,400
2,500- 3,000	1,500	2,500
3,000- 3,500	1,600	2,600
3,500- 4,000	1,700	2,700
4,000- 4,500	1,800	2,800
4,500- 5,000	1,900	2,900
5,000- 5,500	2,000	3,000
5,500- 6,000	2,100	3,100
6,000- 6,500	2,200	3,200
6,500- 7,000	2,300	3,300
7,000- 7,500	2,400	3,400
7,500- 8,000	2,500	3,500
8,000- 8,500	2,600	3,600
8,500- 9,000	2,700	3,700
9,000- 9,500	2,800	3,800
9,500-10,000	2,900	3,900
10,000-10,500	3,000	4,000
10,500-11,000	3,100	4,100
11,000-11,500	3,200	4,200
11,500-12,000	3,300	4,300
12,000-12,500	3,400	4,400
12,500-13,000	3,500	4,500
13,000-13,500	3,600	4,600
13,500-14,000	3,700	4,700
14,000-14,500	3,800	4,800
14,500-15,000	3,900	4,900
15,000-15,500	4,000	5,000

ORGANIZATION CHART OF SPARTAN STORES, INC.



Group Sales History and Trading Area

The annual sales volume for the Spartan Stores warehouse grew steadily but slowly from 1917 until 1946. Until that time the warehouse had an annual volume of a little over six million dollars. Since 1946 the warehouse has experienced a rapid growth in sales each year, and in 1958 this volume was almost sixty-two million dollars. This warehouse sales volume comes from the handling of a complete line of dry groceries, meat, frozen foods, health and beauty aids, and bakery products. Table XV shows the sales history of the warehouse since 1946 when their rapid rise in sales volume began.

TABLE XV

SPARTAN STORES, INC., SALES GROWTH

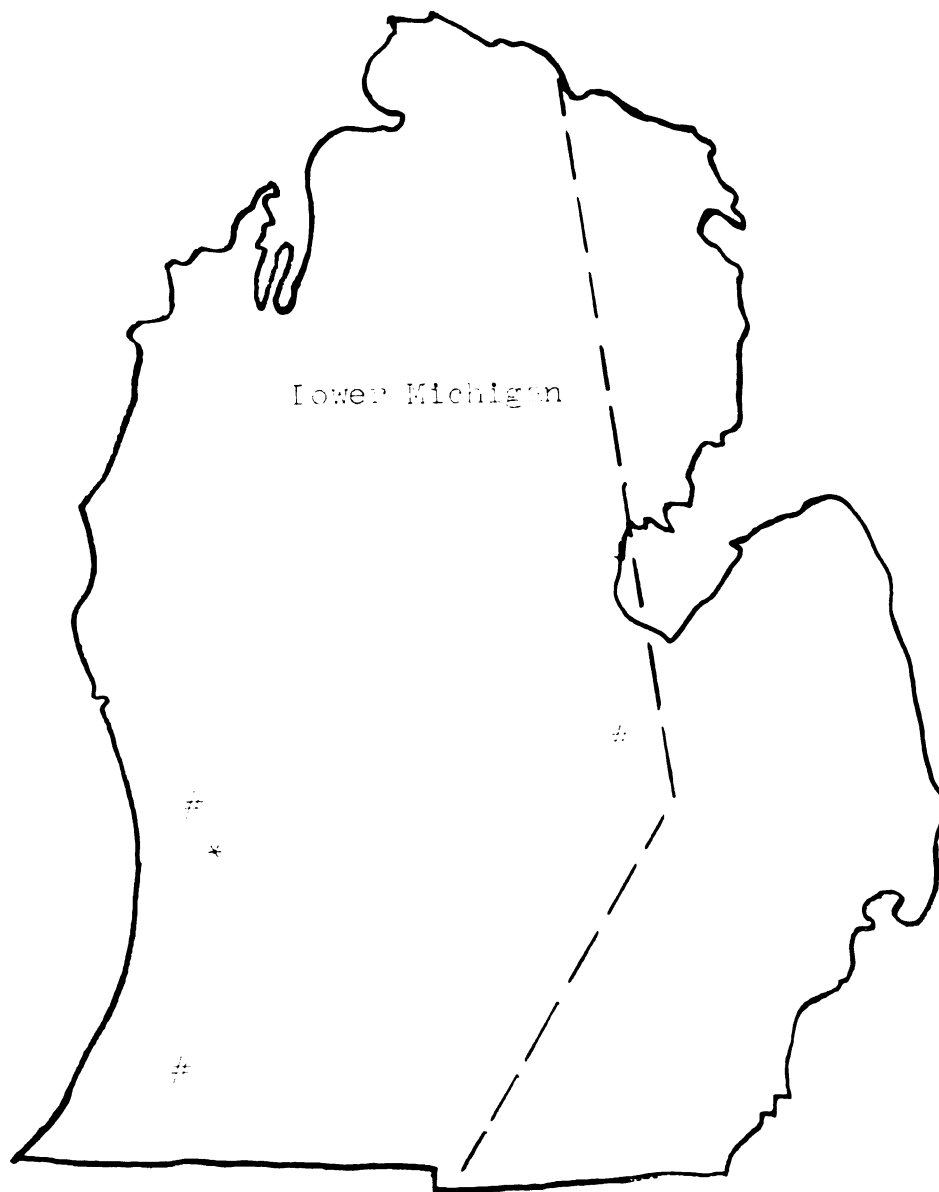
Year	Wholesale Annual Sales
1946	\$ 6,297,000
1947	8,637,000
1948	9,671,000
1949	11,539,000
1950	15,094,000
1951	18,699,000
1952	21,812,000
1953	26,465,000
1954	33,819,000
1955	39,915,000
1956	44,895,000
1957	54,343,000
1958	61,800,000

The Spartan warehouse is now the source of supply for 484 independent food retailers in the state of Michigan. During the past ten years the area serviced by the warehouse has constantly expanded until now almost the entire state has Spartan members. Gordon Cook, editor of Voluntary and Cooperative Group Magazine, estimated that these 484 retail members do an annual volume of 265 million dollars.⁴⁵ Chart IV shows the trading area covered by retail members of the Spartan warehouse and the location of the three cash and carry warehouses.

The largest number of members in the Spartan organization are the independent retailers who operate under their own names in their own local communities. There are, however, some of the retail members who operate under franchise groups sponsored by the warehouse. Examples of these groups are the Foodtown Stores, the AG Stores, and the Shop Rite Markets. A few of the independent retailers who are not members of a group are multi-unit operators. However, the single store owner is definitely in the majority among the Spartan members. All Spartan retailers are required to place a Spartan decal on the front door or window. They are also required to use the Spartan emblem in their advertising

⁴⁵Gordon Cook, "The 1958 Retail Volume of Voluntary and Cooperative Groups," The Voluntary and Cooperative Groups Magazine, Vol. 29 (April, 1959), p. 62.

CHART IV
TRADING AREA OF SPARTAN STORES, INC.



*Spartan Warehouse
Grand Rapids, Michigan

#Cash and Carry Warehouses
Grand Rapids, Michigan
Kalamazoo, Michigan
Flint, Michigan

media. The name "Spartan" is a secondary identification, and it is felt by both retailers and warehouse management that it should remain so.

The Spartan Stores Cooperative Group Plan

One of the main reasons the Spartan cooperative warehouse was formed was because a group of Grand Rapids retailers wanted to have some control over their source of supply and its method of distribution. Because of this retailer ownership of the warehouse there is a close working relationship between the wholesale operation and the retailers. This warehouse-retailer teamwork has been the important factor in the success and growth of the Spartan group retailers.

In the Spartan group method of operation all merchandise is sold to the retailers on a mark-up basis. The warehouse takes the delivered cost of the merchandise and then a small percentage mark-up is placed on all items. The purpose of this mark-up is to cover the cost of operating the warehouse. At the end of each six month period patronage rebates are made to the individual members of all overcharges (mark-up) not needed to operate. These rebates are given to the members, not on the basis of stockholding, but rather on their contribution to the gross profit of the company through their purchases. Since it is the obligation of the company to return such overcharges, these overcharges are not a profit to the company, but a liability

to be paid to participating members. Rebates are paid on grocery, health and beauty aids, perishables, frozen foods, and grocery and meat drop shipments.

In an effort to have the lowest possible operating cost the warehouse has eliminated retail salesmen and all orders are sent to the warehouse by mail. Since the retailers own the company they send a signed blank check with their order, thus, eliminating a costly accounts receivable problem. To keep from increasing the cost of return merchandise the warehouse pays each member one-tenth of one per cent of total purchases. This payment is made semi-annually with the patronage rebates.

When the Spartan warehouse was founded forty-one years ago, the main advantage it offered to the retail members was a low-cost source of supply. But, over the years the warehouse has added retail services which assist the members in improving their operation. The warehouse is now offering its members low-cost retail accounting, low-cost insurance through the warehouse, individual and group advertising, store engineering service, and sales service on non-foods and high-profit food items. Economies are also available to the members in the purchasing of equipment and supplies through the warehouse. These savings of collective buying can be of tremendous value to the retailer.

Merchandise Program

The Spartan warehouse can provide its retail members with the following lines of merchandise: groceries, health and beauty aids, frozen foods, and meat. The warehouse has an agreement with a bakery which permits the retailer to purchase these products at a discount. Non-foods and other specialty items can be purchased through the warehouse on a drop shipment basis. The merchandise program for all products offered by the Spartan warehouse will now be described.

Grocery program. The Spartan warehouse carries a complete line of about 5,000 dry grocery items for the retail stores. This merchandise includes all popular national advertised brands plus two highly successful control labels. The Shurfine canned goods products are control label merchandise that is sold only through retailer-owned warehouses through the United States. This is a high quality product but through the quantity purchases this Shurfine label can be offered to the consumer at a savings. In Western Michigan, Shurfine is the largest selling brand of canned food products. Another control label offered by the warehouse is Spartan brand products. Spartan brand merchandise is relatively new and because of the acceptable quality of this merchandise, as well as the economical price, it is rapidly gaining acceptance by consumers.

All grocery merchandise is purchased by the retailer on an order book which is sent out each week by the warehouse. This book lists the size, weight, and cost of all merchandise carried in the warehouse. There is also a suggested retail price for all items and the per cent of profit if sold at that price. This suggested retail price assures the retailer that he will have competitive prices with his major competition. The warehouse arrives at the retail prices by making weekly price checks of one of the leading supermarket chains in the Grand Rapids and Flint area. The retailer must have his order book reach the warehouse forty-eight hours before his delivery date. Within three days, his order will be delivered. Grocery merchandise is ordered and delivered to the retail stores as often each week as store volume warrants.

Meat program. The Spartan warehouse now has a fresh meat supply program for its retail stores. The members are not required to use this program in purchasing their meat but there are many advantages to this method of central meat buying. Each week the warehouse sends an order form to the retailer listing the types of meat available and the current market price. The retailer then mails the order to the warehouse where all orders are combined. The meat buyers place this quantity order with the packer having the lowest price. After the packer has been selected the warehouse then has their selector select the meat that

will be sent to the Spartan stores. It is the responsibility of the selector to see that all the meat is uniform in quality and meets the group's standards. The meat is then delivered to the retailers by the packer but the merchandise is billed through the warehouse. The advantage of the meat supply program is that the retailer is getting the meat at a lower price through collective buying. The selectors assure the retailers they are getting quality meat and that the meat standards will be uniform in Spartan stores. The retailer no longer must deal with the many packer salesmen in trying to buy meat each week.

Bakery program. In an effort to help the retailers have a low cost of source of supply for bakery products the warehouse has an agreement with the Muller-Grocer's Baking Company. The Muller-Grocer's Baking Company is a retailer-owned cooperative and many of the retailer owners of the Spartan warehouse are also owners in this bakery cooperative. The bakery is currently managed by Joseph Foy. Through this agreement the bakery provides the Spartan stores with a small line of controlled label products as well as the products which are produced under their advertised brand. The retailer pays for all his purchases from this bakery but at the end of each year the bakery pays the Spartan warehouse a rebate on all merchandise purchased by Spartan stores. This rebate is then given to the retailers in direct proportion to their purchases from the bakery.

Frozen food program. The Spartan warehouse carries a complete line of frozen food products in both national advertised brands and control label products. It has been the policy of the warehouse to have a complete line of national brands and a few control label brands on high volume items. The retailer purchases the frozen food merchandise weekly on the order form which lists the pack, cost, and suggested retail price. Orders for frozen foods must reach the warehouse forty-eight hours before delivery date, and there is no additional freight charge on this merchandise. Frozen food is delivered once a week with the grocery merchandise. There is a one week delay in billing all frozen food items to the retailers. For the past few years there has been a patronage rebate of three-quarters of one per cent on all frozen food purchased by the retailers.

Health and beauty aids program. Special emphasis is placed on health and beauty aids by the warehouse because of their high profit margin. The warehouse carries a complete line of health and beauty aid items for the retail stores. The retailer orders this merchandise out of the weekly order book and delivery is made on a weekly basis. There is no freight charge on any of the health and beauty aid items. To help increase the sales of these profitable items the warehouse provides service men to work with the retailers in helping them improve this department. The warehouse has always paid a three per cent patronage rebate

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on all health and beauty aid purchases. For retailers who service their own department there is an additional two per cent rebate. All health and beauty aid items are pre-priced at the warehouse to save the retailer the expense and time required to do this job. To further assist the retailer in his operation, excise tax is computed on each invoice based on resale price. The retailer receives a statement each quarter of the total tax due the revenue department.

Non-foods and special purchases. The warehouse does not carry an inventory of non-food items but the buyers make arrangements for retailers to obtain this merchandise direct from the manufacturers. The retailers are informed of the non-foods by the weekly bulletins mailed out by the warehouse. The retailer places an order with the warehouse for these special non-food items and the buyers purchase only enough merchandise to fill these orders. The merchandise is shipped direct to the retailer and is billed through the warehouse.

For other special merchandise not carried in the warehouse, the retailer can get the warehouse to purchase it on a drop shipment basis. Pricing policy, on drop shipments, is arrived at by deducting all discounts and adding two per cent to the balance. One-half of this charge is returned to the retailer each year, making his

net cost around one per cent over cost. No merchandise ordered on drop shipment basis can be returned.

Manufacturing program. The Grand Rapids Coffee Company, a subsidiary of Spartan Stores, Incorporated, provides the retail members with a control label coffee. The company manufactures a package and a vacuum can under the Spartan label. This is a quality label coffee but it is offered to the consumer at an economical price. The Spartan coffee has obtained widespread public acceptance and the retail members profit by having control of this label.

Services Offered by the Spartan Warehouse

While the main reason for organizing the Spartan co-operative was to have economies in the purchase of merchandise, members soon realized that they would need further assistance if they were to compete against the corporate chains. The retail services offered by the Spartan warehouse are: advertising, store improvement, retail accounting, retail supervision, and cooperative publications. The warehouse feels that these services are important to the growth of their retail members.

Advertising assistance. The retail advertising department provides members with the following services: weekly newspaper mat service, in-store promotional material, radio and television advertising, collection of advertising

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allowances from manufacturers, and a weekly shoppers newspaper.

For the weekly newspaper service the advertising department prepares the theme and items that will be advertised. The retailers can select some of the advertised items and have the right to change some of the prices. The advertising plans are presented to the retailers two weeks before they are to be used, to get their approval, and to give them time to prepare for the promotion. The advertising department prepares mats for three different size groups. Group A is composed of the large supermarkets which usually use one or two full pages for their weekly newspaper advertising. Group B is composed of superette stores and will feature different items than the Group A stores, and will not use as much space for their weekly advertisements. Group C is composed of the smaller stores which are not in one geographical area. The weekly advertising space used by these stores is not large and the advertising specials do not have to be as competitive. After the retailers have approved these mats the advertising department has the mats made for all the newspaper used by the retail members. The warehouse charges the retailers that use this service for the cost of preparing and distributing the mats.

The advertising department each week prepares the Shoppers' Review which is a weekly newspaper that has a

circulation of over 100,000. This newspaper carries items of interest and also buying hits to the consumer. The inside of the newspaper is a double page advertisement for the individual Spartan retail member. Each retailer's store name is printed on the paper which is mailed to all homes in his trading area. The retailers are charged for the cost of preparing, printing, and mailing of these papers.

Direct mail advertising is also provided to the retailers by the advertising department at a very low cost. The theme and main items are selected by the warehouse subject to the retailer's approval. The direct mail advertisement is then printed and mailed to the retailer's customers by the warehouse. Each retailer gets his own identification placed on all the direct mail sent out to consumers in his trading area. The direct mail program has been used most effectively by retailers in rural areas and small towns.

The warehouse provides all retailers with in-store promotional material such as window posters and shelf-talkers. This material is offered to the retailer at a very low cost and follows the general theme of the newspaper and radio advertisement for the week.

The advertising department has a radio and television advertising program for its retail members. Under this radio program, spot radio commercials are used to promote

the Spartan labels. These advertisements are paid for by the warehouse. Another radio advertising program available to members is spot commercials on local radio stations. The warehouse pays one-half of this cost while the retailer pays the other half. The combined radio advertising for the Spartan group is carried over twenty-six radio stations in Michigan. The television advertising done by the group is confined to institutional advertising over four stations in the Western Michigan area.

The advertising department semi-annually sends a list of items carrying advertising allowances from manufacturers to help the retailer qualify for these rebates. In planning advertising the department tries to take advantage of these allowances but the retailer must show proof of advertising if he is to qualify for the allowances. Tear sheets, the retailer's proof of advertising, must be submitted to the advertising department within seven days after publication. The warehouse then collects the earned advertising allowances, and payments are made quarterly to members in accordance with the member's individual advertising performance. In Appendix B is shown the cooperative advertising contract which members are required to sign if they are to qualify for the advertising allowances.

Store improvement program. The store improvement department is one of the newest services offered by the warehouse. This department includes retail assistance in

three major areas: store engineering, health and beauty aids, and sales service.

Under the engineering service the department provides members with any assistance needed to remodel or build new supermarkets. For new supermarkets surveys are made to find the best location. From this survey can also be determined how large the store should be and what type of merchandise should be stocked. The department will make complete plans for the building construction, layout, and equipment for new or remodeled stores. The retailer can purchase his equipment needs through the warehouse direct from equipment fixture companies. After the store has been completed, the department will help the retailer plan an effective layout of merchandise that will increase the sales of high profit items. Store planning assistance is offered to the retailer members at no charge.

The health and beauty aids department has the responsibility for the sale and promotion of the cosmetics, creams, and toothpaste. The company feels that the sales of these high profit items is most important to the success of all supermarkets and this department can get out of control without careful and constant supervision. Retail field men from the warehouse work with the retailers to improve the sales of health and beauty aids. These field men go into the retail stores requesting this service each week and order all merchandise that is needed. They place

all merchandise on the shelves and set up special sales and promotions that will increase the sales.

The third retail service group within the store improvement department is the sales service group. These men serve as coordinators between the warehouse and the retailers and assist them in planning special sales and promotions. The sales service men also have the responsibility to see that high mark-up items as light bulbs, olives, pickles, spices, gloves, and other similar items are merchandised to increase their sales. This service has been of real help to retailers in their operation.

Retail accounting. Three years ago the warehouse established a retail accounting department that keeps books for member stores requesting the service. Because of the highly competitive position of supermarkets the warehouse felt that its members needed assistance in keeping accurate records. These records tell the retailer how his business is doing and why, and it is most helpful in preparing tax statements.

More important than just keeping accurate records the accounting department is able to compare one retailer with another in his volume class, and to analyze the retailer's strong and weak points. This is done to help the retailer improve his operation and make it more profitable.

The services which the Spartan accounting department offer to the retailer are:

1. Maintenance of permanent bookkeeping records.
2. Preparation of operating statement and balance sheet every four weeks--thirteen times per year.
3. Preparation of payroll tax returns.
4. Preparation of monthly and annual sales tax returns.
5. Reconciliation of bank account every period.
6. Various consultation and analysis work.
7. Preparation of excise tax return.⁴⁶

The retail accounting department provides personal and confidential assistance to member stores, and consults with them on financial and operational matters, such as securing improvement loans, helping to make the best use of finances, and counseling on proper insurance coverage. This service has demonstrated how proper preparation and interpretation of retailer's statements, together with prompt action on the part of the retailer makes the difference between a member showing a loss or a profit.

Company publications. To keep the retail members informed about all new products, market conditions, promotions, and special buys, a weekly mimeographed information sheet is sent out by the warehouse. From this information the retailer is able to plan his future promotions and

⁴⁶"Spartan Stores Retail Accounting Service," unpublished material from Spartan Stores, Inc., Grand Rapids, Michigan

plan for the ordering of merchandise needed. In 1959, they began publishing Behind The Shield, which is a newsletter for the retail members. The purpose of this bi-monthly publication is to build a better understanding between the warehouse and the retail members.

Warehousing and transportation. Early in 1959, Spartan Stores moved into their new two and one-half million dollar warehouse in Grand Rapids. This food distribution center is considered to be one of the most modern in this area. The building covers an area of seven and one-half acres and contains 325,000 square feet. It is estimated that this new warehouse can supply between 525--550 affiliated stores, with a maximum wholesale volume of 125 million dollars. The main purpose for building this new warehouse was to have facilities to serve the retail members with all the merchandise needed for a successful operation. Also by having a more efficiently designed warehouse, a lower operating cost is achieved.

Each retail member receives as many deliveries from the warehouse as store volume dictates. The truck fleet is owned and operated by the Star Transfer Line of Grand Rapids, which has a contract to make deliveries for the warehouse. Not having money invested in this transportation equipment the warehouse has been able to reduce the capital needed from the retail members to operate the distribution center. All deliveries are made on a pre-arranged



schedule and the retailers are expected to help unload the trucks at their store.

Fee Schedule of Spartan Stores, Incorporated

Every retail member of Spartan Stores warehouse has an investment of one thousand dollars in class A stock and the class B stock is equivalent to the average weekly purchases of the individual member. In addition to this there is a weekly service charge of five dollars. Table XVI shows the actual service charge that each retailer pays.

TABLE XVI
SERVICE CHARGE SCHEDULE¹

Service charge is \$5 per order. If total investment is three times average weekly order and average order is in following brackets, service charges would be according to this schedule.	
<hr/>	
Average Weekly Purchase	Service Charge
<hr/>	
\$ 1- 500	\$ 4.50
501- 1,500	4.00
1,501- 3,000	3.50
3,001- 5,500	3.00
5,501- 8,000	2.50
8,001-10,500	2.00
10,501-14,000	1.00
14,001-17,000	1.00

¹As average weekly purchases are computed each December and are considered constant for the ensuing year, any changes in individual service charges would be constant for the year.



All merchandise is sold to the retail members on a mark-up to cover the cost of operation. At the end of each six months each member receives patronage rebates in direct proportion to their purchases.

For the retail services offered by the company, the retailer has to pay for retail accounting, advertising mat service, window posters, direct mail advertising, and transportation. For the retail assistance offered in the health and beauty aids department the wholesaler charges two per cent of the total purchases of this merchandise. There is no charge for the complete engineering service. Table XVII shows the fee schedule for the retail store accounting service. In Table XVIII can be seen the charges made by the advertising department for its services. Table XIX shows the charges for transportation.

Success of the Spartan Supermarkets

One of the best ways to determine the success of any group is to see how profitable its retail members are. In Table XIX is an operating statement for a typical Spartan supermarket. This store was not selected because it is one of the best stores in the group, but rather because it shows an operating statement similar to that of many of the Spartan retail members.

TABLE XVII
RETAIL ACCOUNTING FEE SCHEDULE¹

Group No.	For a Four-Week Period Store Sales	Charge
I	Up to \$5,000	\$22.00
II	\$ 5,000 - 10,000	27.00
III	10,000 - 15,000	32.00
IV	15,000 - 30,000	37.00
V	30,000 - 50,000	42.00
VI	50,000 - 75,000	48.00
VII	75,000 -100,000	54.00
VIII	100,000 -150,000	60.00
IX	150,000 -200,000	70.00
X	Over \$200,000	90.00

¹If a store is not liable for unemployment taxes, the above rates are reduced \$2.00 per period.

TABLE XVIII
ADVERTISING FEE SCHEDULE

Group	Size	Fee
Weekly Mat Service Fees		
A	7 col. x 20 in.	\$15.00
B	4 col. x 14 in.	5.00
C	4 col. x 14 in.	4.00
Radio Commercials		
Retailer pays one-half and the warehouse pays one-half of the actual cost.		

TABLE XIX
SPARTAN STORES FREIGHT RATES¹

City Rates					
Time of Delivery		Under 12,000 lb.	Over 12,000	Minimum Charge	
Grand Rapids:	Monday--				
	Thursday	.14	.13	\$	3.00
Grand Rapids:	Friday	.12	.10		3.00
Out of Town Rates					
Beyond Zone	Grand Rapids Delivery Mileage Basis		Under 12,000 lb.	Over 12,000	Minimum Charge
1	1 -	5 miles	.17	.14	\$3.35
2	6 -	10	.18	.14	3.50
3	11 -	15	.19	.15	3.55
4	16 -	20	.20	.16	3.60
5	21 -	25	.21	.17	3.95
6	26 -	30	.22	.17	4.10
7	31 -	35	.23	.18	4.25
8	36 -	40	.24	.18	4.40
9	41 -	45	.25	.19	4.55
10	46 -	50	.26	.20	4.70
11	51 -	55	.27	.21	4.85
12	56 -	60	.28	.21	5.00
13	61 -	65	.29	.22	5.15
14	66 -	70	.30	.22	5.30
15	71 -	75	.31	.23	5.50
16	76 -	80	.32	.24	5.60
17	81 -	85	.33	.25	5.75
18	86 -	90	.34	.25	5.90
19	91 -	95	.35	.26	6.05
20	96 -	100	.36	.27	6.25
21	101 -	125	.38	.28	6.55
22	126 -	150	.41	.32	7.00
23	151 -	200	.46	.36	7.75

¹Per hundred weight.

TABLE XX

STATEMENT OF OPERATION FOR A TYPICAL SPARTAN SUPERMARKET
For a Four-Week Period

<u>Department</u>	<u>Sales</u>	<u>Per Cent of Total</u>
Groceries	\$25,696.00	64.24
Meat	11,020.80	27.55
Produce	<u>3,283.20</u>	<u>8.21</u>
Total Sales	\$40,000.00	100.00
<u>Gross Profit</u>		
Groceries	\$ 4,095.94	15.94
Meat	2,325.39	21.10
Produce	<u>806.35</u>	<u>24.56</u>
Total Gross Profit	\$ 7,227.68	18.07
<u>Operating Expense</u>		
Salaries	\$ 648.00	1.62
Wages	2,184.00	5.46
Advertising	232.00	.58
Sales promotion	20.00	.05
Stamps	924.00	2.31
Coupons	16.00	.04
Rent	476.00	1.19
Utilities	276.00	.69
Supplies	280.00	.70
Freight	64.00	.16
Linen	56.00	.14
Grocery service charge	8.00	.02
Accounting and legal	60.00	.15
Bank charges	8.00	.02
Office expense	16.00	.04
Dues and subscriptions	12.00	.03
Donations	12.00	.03
Interest	88.00	.22
Repairs and maintenance	92.00	.23
Insurance	68.00	.22
Employees' welfare	16.00	.04
Property taxes	72.00	.18
Payroll taxes	92.00	.23

TABLE XX (continued)

	<u>Operating Expense</u>	<u>Per Cent of Total</u>
Other taxes	\$ 134.00	.46
Depreciation	472.00	1.18
Travel expense	20.00	.05
Miscellaneous	<u>15.00</u>	<u>.04</u>
Total Operating Expense	\$ 6,432.00	16.03
Net Operating Profit	\$ 795.63	1.99
Adv. Rebate Income	52.00	.13
Prom. Rebate Income	63.00	.17
Cash over or short	8.00	.02
Other Income	<u>272.00</u>	<u>.68</u>
TOTAL OPERATING PROFIT	\$ 1,179.63	2.95

CHAPTER V

SUMMARY AND CONCLUSIONS

Summary

While both the voluntary and cooperative wholesale firms described in this report are similar in that they serve affiliated independent retail groups, there are also variations in their organization and method of operation.

The Fleming Company, operating as a voluntary wholesaler, is a private corporation owned and controlled by 543 stockholders. In becoming a member of the affiliated group, independent retailers are not required to purchase stock or make buying deposits, therefore, they do not become wholesale stockholders as in the case of retailer-owned cooperatives. The Fleming Company operates its voluntary group in a four state area under the national Independent Grocers Alliance group name. To become a member of the voluntary group, independent retailers must be approved by the company officers and sign a contract to support the group programs and maintain high standards in their supermarkets. The Independent Grocers Alliance name is used by all stores affiliated with the company with the exception of stores in Missouri which are called United Supers.

Under the sales service plan which the Fleming Company established in 1927, merchandise is sold to retail members at wholesale cost, plus a small fee to cover the operating expense. Retailers are expected to concentrate their purchases with the warehouse and cooperate with the merchandising program planned by the company. Retail members are further expected to support the sales service plan by following the suggested retail prices established by the warehouse. This has been done to establish uniform and competitive prices in all IGA stores. Retailers receive delivery of dry grocery merchandise two to three times a week and perishable products are delivered four to six times a week. The exact number of deliveries depends on distance of the store from the warehouse and the size of the order.

Because of the large amount of capital needed to open new supermarkets most independent retailers have been handicapped in keeping pace with the store development of the corporate chains. To assist the independent merchants in developing new supermarkets the company has established a store development department. It is the responsibility of this department to plan and finance the construction of modern supermarkets. Upon completion of new supermarkets it is the policy of the company to lease or sell these stores to independent retailers. These stores become privately owned but operate under the Fleming voluntary

group plan. The retailer is not charged for this service but it is expected that he will support the complete sales service program.

To assist the affiliated group members in their operation the warehouse employs a force of sales service men to work with the retailers. It is the responsibility of these men to assist the retailer in improving his operation by increasing sales and profits. The sales service men also serve as a communication link between the warehouse and the retail members. Experience has shown that the retail assistance of the sales service men play an important part in the success of the group.

The Fleming Company also offers its retail members other retail services such as retail accounting, advertising, and retail employee training schools. These services are performed to assist the retail members in improving the profitability of their supermarkets.

Spartan Stores, Incorporated, being a retailer-owned cooperative wholesale, is owned and controlled by the retail members. Each group member is a stockholder in the warehouse because of the stock and buying deposit he is required to invest in the cooperative. These retailer-members elect a board of directors of nine members who have the responsibility of running the company. They appoint a general manager, who is the operating head of the company, and he is responsible to the board. Policies

set by the board are executed by the general manager through the warehouse personnel.

For a retailer to become a member of the group he must be approved by the board of directors and then purchase a minimum of \$1,500 worth of stock. All merchandise is sold to the retail members on a mark-up basis. This mark-up is placed on the cost of the merchandise to cover the expense of operating the warehouse. Every six months profit not needed for operating capital is passed back to the members in the form of patronage dividends. These dividends are paid to the retailer in direct proportion to his total purchases. Most retail members receive one or two deliveries of merchandise each week on a pre-arranged schedule.

The Spartan warehouse sponsors four affiliated group names under which the members operate. Members are assigned the group name they will use according to their geographical area and size of supermarket. The cooperative also has members who do not operate under one of the franchise names, but all members are required to place the Spartan buying group emblem on the front of their store.

The group advertising service provided by the warehouse for its members is most important in the success and growth of the group. Through the group advertising each member is receiving a most effective advertising program but is paying only a small per cent of the total cost.

The cost would be prohibitive for most retailers to do this amount of advertising on their own. The retail assistance offered by the warehouse in the non-foods and health and beauty aid department has been most helpful in increasing sales of these profitable lines.

The store engineering service provided for the retail members is most essential in the development and growth of the group. This service includes drawing complete plans for new or remodeled supermarkets and the economy of purchasing equipment through the warehouse. Further retail assistance such as retail accounting, group insurance program, and retail employee training is provided to members. The warehouse management feels that the assistance is most important if the retail members are to grow in sales and profit.

Conclusion

With the growth of the chain store operations in the 1920's the wholesalers realized that this competition must be met with some new method of low cost distribution to independent retailers. The voluntary and cooperative groups which have been described in this paper are the solution to their problem.

The function of the modern voluntary and cooperative wholesaler is to supply affiliated retailers with low cost merchandise and also to offer special services to the retailer to help improve his operation. The growing

investment requirements for new supermarkets has made the financial and real estate services offered by the wholesalers of prime importance.

The strength and importance of voluntary and cooperative groups is shown by the success of the plan and its stability in the food industry. In 1953, these affiliated groups had increased in importance to where they are now doing forty-five per cent of the total retail grocery sales.⁴⁷ With the growing competition in the food industry between chains and independents, the importance of these group wholesalers will increase because of the many advantages they offer the independent retailer.


The cooperatives have been more successful than the voluntary groups in lowering operating cost, because of the heavy emphasis they place on buying and warehousing but are providing only a limited amount of merchandise and operational assistance. But experience has shown these services are greatly needed by the independent retailer if he is to be able to compete with the corporate chains. In the past few years cooperative wholesalers have realized the importance of these retail services and are now providing assistance to member stores in much the same way as the voluntary groups.

⁴⁷Mueller, "Annual Report on Food Retailing--1953," op. cit., p. F.18.

The voluntary and cooperative groups are handicapped in their operation because of the reluctance of many retail members to improve their operation and to develop new stores. The wholesaler's responsibility is to overcome this problem and offer incentives for the group to improve their operation.

Another disadvantage which must be overcome is the lack of cooperation by many retail members. If the groups are to operate as they should, it is important that the wholesaler have full cooperation from the retail members. This is important not only to enable the wholesaler to have the economy of quantity purchases, but also to support the special services made available to the retailers. In the future there will be an increasing degree of wholesaler control over the group to enable the wholesaler-retailer to become more efficient in their operation.

The voluntary and cooperative group movement has played an important part in enabling both the wholesaler and retailer to improve their position in the food distribution industry. The future growth of these affiliated groups will depend on the ability of the wholesaler and retailer to work together with more cooperation. In doing this the voluntary and cooperative groups will grow and become more profitable to all members.



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- The Fleming Company's Sales Service Plan.
- IGA Franchise Agreement
- Cost of Merchandise and Retail Services Under the Sales Service Plan.
- Weekly Merchandise Order Forms.
- Operating Statement for an IGA Supermarket.

Spartan Stores, Inc.:

Spartan Stores Retail Accounting Service and Fee Schedule.

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APPENDICES

APPENDIX A

THE FLEMING COMPANY

RETAIL-WHOLESALE IGA AND SALES SERVICE PLAN AGREEMENT

This agreement, entered into between The Fleming Company, Inc. (wholesaler), and the undersigned independent retailer.

Whereas, the wholesaler is duly franchised by the Independent Grocers' Distributing Company (IGA) and _____,

Whereas, the retailer desires membership in the IGA and Sales Service Plan.

Now, therefore, in consideration of mutual promises it is hereby agreed as follows:

THE WHOLESALE PROMISES AND AGREES

FIRST--To enroll the retailer as an IGA store under the Sales Service Plan and obtain for him its benefits and advantages.

SECOND--To cooperate with the retailer in furnishing store engineering service, bringing the retailer latest and best store arrangement plans, and suggesting from time to time such changes as to keep his store in an up-to-date condition.

THIRD--To furnish or make available to the retailer, IGA products, merchandise and supplies with the understanding that IGA brand products will not be sold to any retail stores other than IGA stores.

FOURTH--To make available to IGA members a complete advertising program, uniform as to design and layout so as to give IGA members the value of uniform advertising and the savings of mass production. The advertising material is as follows:

1. Window posters each week included in the IGA membership fee.
2. Special store advertising and decorations for major sales events, such as Thanksgiving, Christmas, etc., included in the IGA membership fee.

3. Newspaper mat service furnished each week, included in the IGA membership fee.
4. IGA handbills will be available every week at the lowest possible cost.

FIFTH--To furnish layout sheet each week suggesting items to be advertised, giving retailer suggested retail price, percentage of profit, how packed and retailers cost.

SIXTH--To mail to retailer periodically, a merchandising bulletin, THE FOOD CIRCLE, giving information in advance as to coming sales events, suggestions as to store operation, crop conditions, price trend, etc.

SEVENTH--To furnish retailer national IGA magazine, THE GROCERGRAM issued monthly, containing merchandising and sales suggestions, and news of general interest.

EIGHTH--To furnish retailer printed order form containing his cost, suggested selling price, weight of case and how goods are packed. This printed order form also shows accurate current prices, market changes, new items added and items discontinued.

NINTH--To furnish special sales service, helping retailer make necessary arrangements for special sales when need arises.

TENTH--To make available, at a nominal charge, a complete accounting service which will give retailer accurate current figures on his business, all as covered in separate accounting service agreement.

THE RETAILER AGREES

FIRST--To cooperate to the best of his ability with the IGA movement and the sales service plan in order that all economies of distribution may be affected.

SECOND--To display the standard IGA sign, with retailer's name and IGA insignia thereon, all as per IGA general and uniform plans relating to colors and store arrangement submitted by the wholesaler to the retailer. Retailer agrees to do that at his own expense.

THIRD--To mail orders as per schedule established and to mail as per schedule, signed incomplete check made payable to the Fleming Company, in payment of all transfers and weekly fee, so that unnecessary book-keeping, collection and credit expense may be eliminated.

FOURTH--To cooperate in eliminating the return of merchandise in order that such expense prevalent in the independent system may be reduced to the absolute minimum.

FIFTH--To concentrate his ordering through and from the Fleming Company supply depot.

SIXTH--To conduct his business and maintain his store and store personnel in a manner that will be a credit to his community and reflect the high standard and quality of the IGA movement.

SEVENTH--To pay to the wholesaler the IGA national membership fee of \$1.20 per week during the life of the agreement.

EIGHTH--To pay to the supply depot a weekly service fee per the attached schedule in accordance with the sales service plan. Such service fee applies only on those items covered under the sales service plan and is in consideration of the Fleming Company supplying such items at wholesaler's cost, as defined, and is to compensate the Fleming Company for the buying service, merchandising service, market information, printed order form with suggested resale, competitive retail price shopping service, and other services necessary to the operation of a modern retail food store.

NINTH--The retailer further agrees that he will use the advantage of the sales service plan by being competitive. "Being Competitive" means that regular everyday prices on such items will be no higher than prevailing major competition of similar type operation in merchant's trading area.

This agreement shall continue in full force and effect until cancelled by either party upon thirty (30) day period, he will discontinue the use of and remove the IGA sign and all IGA insignias, emblems and any other advertising devices, return to the wholesaler and do all things necessary to inform the public that the IGA affiliation has been terminated.

Witness the signature of the Wholesaler and the Retailer this _____ day of _____, A. D., 19_____.

Store Name THE FLEMING COMPANY
Wholesaler

Retailer By: _____

Street Town State
Address

APPENDIX B

SPARTAN STORES, INC.

COOPERATIVE ADVERTISING CONTRACT FOR MEMBERS OF SPARTAN STORES, INC.

The Spartan Stores, Inc., agrees to pay the undersigned member advertising monies on certain specified items advertised by the member in newspaper and/or circulars. A list of the said items will be mailed periodically to each advertising member.

1. This contract is separate and distinct from any contract for the purchase price of merchandise.
2. The advertiser shall maintain an adequate stock of each of the items advertised.
3. These items shall be made readily accessible to customers.
4. Items must be advertised during the quarter purchased and proof of such advertising submitted to Spartan Stores, Inc., advertising department not later than seven days after publication of advertising.
5. Member agrees to promote and display merchandise advertised suppliers in behalf of Spartan Stores, Inc. Notice of such advertisement--with prices of items to be advertised--will be sent to members in sufficient time for adequate member preparation. Such advertisements are supplemental to regular member ads and are essential to the success of the over-all Spartan advertising program.
6. Member agree to display the Spartan decal on store window or front door and to use Spartan identification in his advertising at least three times each quarter.
7. Member agrees to adhere fully to this contract as well as the procedures and requirements additionally listed in current Control Book for this cooperative advertising program--otherwise no payment will be made under the terms of this contract.

8. This agreement is subject to all Federal and State laws now and hereafter in force and to rules and regulations pursuant to law.

This agreement is a standard form offered to any member of Spartan Stores, Inc., and may be terminated by either party at any time by written notice seven days prior to date of intended termination.

Accepted by

SPARTAN STORES, INC.

By _____
For Advertising Department

Signed: _____
Member--Spartan Stores, Inc.

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