

A COMPARISON OF THREE TYPES
OF FOOD CHAINS

Thesis for the Degree of M. A.
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Kendall Alfred Adams
1953



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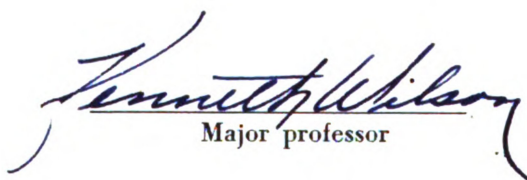
A COMPARISON OF THREE TYPES
OF FOOD CHAINS

presented by

KENDALL ADAMS

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A COMPARISON OF THREE TYPES
OF FOOD CHAINS

By

Kendall Alfred Adams

A THESIS

Submitted to the School of Graduate Studies of Michigan
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THESIS



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CHAPTER I

INTRODUCTION

The objective of this work is to compare three food wholesaling businesses, each of a different organizational and financial structure. There is no intention of ultimately proving that one type is better than the other. A comparison of the sort contained herein should produce information which will be of value to the future operations of any one of the three groups.

A person studying food distribution for any length of time will soon encounter the cooperative, corporate and wholesaler-sponsored food retailing chains. Connected with each of these chains is an organization which performs the main part of the wholesaling function for them. The operational philosophy of each type is adequately covered in marketing texts. However, the student, though readily learning the text definition of cooperative, corporate, and wholesaler-sponsored food chains, is likely to find it confusing as to how they are actually represented in practice.

One functioning enterprise of each of these types has been selected. By personal interview and questionnaire directed at the wholesaling units of these various food chains, an attempt was made to learn the operating procedures of the working organization.

It would be highly desirable in a work of this sort to determine definitely the strong and weak points of each organization. Perhaps a cost analysis would reveal which of these three businesses being compared is operating the most efficiently. This, however, is not the information that is being sought. Data of this sort would lose value because of the fact that each of these wholesale units is operating under varying conditions which effect its cost of operation.

Definition of Terms

In the discussion to follow, the reader will encounter the terms voluntary and corporate chain, corporate wholesaler, independent wholesaler, retailer-owned cooperative, and operational methods. Since there seems to be varying definitions applied to these terms, their meanings as used in this report will now be explained.

The voluntary chain and independent wholesaler are related. The voluntary chain presented in this study is a group of independent retail food merchants. These merchants agreed to accept certain obligations as members of the group. A contract to this effect was signed by each retailer with the sponsoring wholesaler. The independent wholesaler who acted as the sponsor of this group is a grocery wholesale enterprise with corporate financial structure, but holding no

actual financial control over the retail customers as a group. These retailers will be referred to as voluntary retailers or as belonging to a voluntary group or as a wholesaler-sponsored chain. Marketing texts often use the term voluntary chains to describe both the retailer-owned cooperative and the wholesaler-sponsored chain. This is explainable, due to the fact that the membership in both groups is voluntary.

The corporate wholesaler referred to in this paper is actually the phase of the corporate chain which is designed to perform the wholesaling function for that chain. In the corporate chain, the retail and wholesale units are all a part of the same corporation. This case represents vertical integration including some manufacturing steps through to the retail stores.

The retailer-owned cooperative describes a group of retailers that have pooled their financial strength and organized a business entity to perform the wholesaling function for them. The retail store operators are then actually the owners of this wholesale business. These retailers will be referred to as cooperative retailers or as belonging to a cooperative group.

Independent retailer is used to explain the status of a retailer who has no affiliation with any other organization. Operational methods as used here is a general term alluding to the activities of a wholesaler as far as his contacts with

retailers are concerned, but does not attempt to describe the procedures involved in warehousing itself in any kind of completeness.

Importance of the Study

One of the mentioned objectives of this study was to gain academic clarification between independent, corporate, and cooperative food organizations. Due to the conflict of terms and definitions, such as has been briefly discussed, it can be realized that a student of marketing might have some difficulty assigning specific functions to a particular group. It is hoped that some clarification can be gained from this report on what is actually involved in these three organizations in the grocery field.

There appears to be a trend within industry in recent years to make facts known concerning operations. This trend is certainly different from the policy of secrecy which was believed so necessary to successful grocery operations in the past. Certain business activities, such as a proposed strategy or new course of action, undoubtedly should remain confidential. It seems, however, that fewer of these activities are now coming within the classification of secrecy. Instead, the business man realizes that through comparison and study of other methods there exists an opportunity for the solution of problems, and thus, progress can be realized. The National

Association of Food Chains is an example of an organization which is concerned with this idea. In this report, an attempt has been made to make known some operational facts within the segment of the food distribution industry selected.

It should also be pointed out that a comparative study can have the effect of presenting clearly the advantages of a particular business. Such facts might actually have been overlooked or unappreciated in the past. A vacillating store policy can develop when such business advantages are overlooked. A lack of clear cut policy can result in a weakening of the service which a particular business can make to the economy which it serves.

The importance of progress within business is so great as to appear unnecessary to mention. In spite of this seemingly obvious condition, there are occasions when American business has resisted progress. It is becoming more evident each day that the dangers to be realized from complacency in our business practices are rapidly increasing. No other single thing could be more desirable from the standpoint of the work contained herein than to point out the importance of constantly searching for better business methods.

Limitations of the Study

The food industry is often spoken of as the largest industry in our nation. Therefore, the samples chosen for

discussion at this time give no assurance of being representative samples. The personal interview was the most important method utilized for collecting information. An attempt was made to cover each business in a similar manner by preparing an outline previous to the interview. However, it was not always possible to go through the outline in any kind of a uniform manner. Therefore, certain omissions and commissions are likely to have occurred.

Some businesses, due to their size and nature, had much information readily available. This was in printed form and lent itself readily to the purposes of this report. In other cases, the majority of the material concerning the company operations was gained through interviewing and re-interviewing company officers.

One of the enterprises appearing herein is greatly separated from the other two in terms of geographical location. Variance which arises through consideration of the effects of the human element must also be considered. For example, management reorganization could be taking place to cause one to believe that the present or past performances were not at all representative of what could be expected in the future of the company.

Again, it should be stated that this is not a cost analysis study. Because of the differences between these three businesses arising from location, physical facilities, and

varying business backgrounds, there is no basis for comparison in a concrete manner.

Methodology

An outline was developed which was believed would cover the areas of interest in each of the three types of businesses to be reported on. A process of mailing these outlines to companies along with a letter requesting permission for a personal interview to be guided by the outline was followed. Some difficulty was encountered in gaining this permission. Then, it became difficult to cover adequately the topics outlined in the amount of time that an executive could allow. Often more than one visit was required. The interviews were followed by letters requesting clarification on questions which appeared after the interview.

Secondary sources of information were not, in most cases, as fruitful as the primary method of gathering the facts desired. However, the opening discussion presented in this paper with the purpose in mind of acquainting the reader with a general concept of the food wholesaling structure on a nation-wide scope, was gained entirely from secondary sources.

In some cases, letters were written to persons who were connected with a particular business only in an indirect capacity. The purpose here was to clarify certain points which were involved in a general way with the particular wholesale enterprise under study at that particular time.

Organizations Which Were Contacted

The first consideration was to select companies about which there existed the most secondary information. However, it soon became apparent that the most important limitation in selecting specific organizations was the problem of gaining permission for the interview, and consequently, the information required.

Other considerations were location, previous contact, and successfulness of the particular business. It was decided that it would be more beneficial to interview a thriving organization than one which was on the brink of collapse. A more complete presentation could be made of those firms with which the writer had become the most familiar.

Warehousing Considerations

It is recognized that certain physical plants, warehouse building types and methods of handling merchandise will increase warehousing efficiency. Large quantity purchasing has within itself the possibility of savings to the purchaser. These savings result from efficiencies of mass buying practices. Therefore, it can be assumed that an organization with the best physical plant and in the best position to utilize wisely mass purchasing and selling will be the organization with the lowest costs involved. It is not intended to discredit

the importance of the various problems involved in obtaining the most efficient operation from any given physical condition whether it is the most modern warehouse operation or one of the older types. Herein a comparison is made of the systems of operation and not of operational problems, except as they pertain to the functioning of the organization.

The problem of comparison is further complicated by the fact that there is a lack of uniformity of definition of terms. Descriptive terms within one organization represent different facts than are represented by another organization using the same term. Even very common terms, such as gross sales, net sales, cost of goods sold and selling expenses, lack clear mutual understanding. This leads to misinterpretation and the comparison of items which appear to be alike, but which are quite different. Operating procedures differ and there are no accounting methods existing to match them.¹

In every wholesale trade, it is easy to visualize that no two establishments are surrounded by exactly the same obstacles and advantages. Ratios are not, therefore, a satisfactory substitute for judgment. Profits in wholesaling are seldom the reward of a single brilliant tactical maneuver to maintain satisfactory operating margins and expense ratios.²

¹Orin E. Burley. "Marketing Research, Operating Surveys and Analysis." Journal of Marketing. September, 1949. 14:2 p. 218.

²Ibid., p. 223.

TABLE I
COST COMPARISON BETWEEN
MULTI-STORY AND SINGLE-STORY STRUCTURES
WITH THE SAME GROSS FLOOR AREAS*

Item	Multi-Story	Single-Story
Gross Area in Sq. Ft.	72,000	72,000
Area Lost By:		
Columns	2,976	1,168
Elevators	1,512	None
Stairs	2,160	None
Approaches	3,600	None
Outside Walls	<u>3,120</u>	<u>1,260</u>
Total	13,368	2,428
Total Usable Area	58,632	69,572
Percent of Total	82	96
Land Required (Acres)	$\frac{1}{2}$	2
Cost of Building	164,000	122,000
Cost of Land (\$6,000 - 1 acre)	<u>3,000</u>	<u>12,000</u>
Total	167,000	134,000
Price Per Sq. Ft.	\$ 2.27	\$ 1.70
Price Per Usable Sq. Ft.	2.77	1.76
Price Per Usable Sq. Ft. Land and Building	2.85	1.93

*Source: Streamlined Wholesale Grocery Warehouses. Department of Commerce. Industrial Series No. 18. Superintendent of Documents. Washington: U. S. Government Printing Office. p. 14.

Table I presents the advantage to be gained in the operation of a single story warehouse structure in comparison to a multi-story building. The savings of \$0.92 per usable square foot represents a considerable competitive advantage in favor of the single story wholesale structure. Further simplification of the warehousing process through mechanization and scientific allocation of operations developing greater efficiency will tend to increase this competitive advantage.

Receiving and shipping are vital phases for a wholesaler. Congestion at shipping and receiving platforms appears inevitable even where the entire ground floor of a wholesale house is devoted to this phase of the operation. Congestion here invites slow operation which reduces output and necessarily increases occupancy costs per ton handled. Due to the low unit markup, a grocery wholesaler must be interested in tonnage movement. The wholesaler can remain in business in a competitive market only by the efficient handling of a large tonnage of merchandise.

Multi-story buildings seldom contain any one floor which is large enough in itself to contain an entire assembly line. Layout, then, presents a problem which is ordinarily solved by assembling the order on various floors. This separation brings about extra operations in communication and extra

transporting between floors. Elevators seldom are constructed to safely bear the weight of industrial machines which can be substituted for manual movement of goods usually accomplished by hand jack and skid or the hand truck.³

The one story warehouse presents certain advantages over the multi-story one as discussed. However, it is not always possible for a wholesaler to move his business into a modern structure due to many reasons. The well planned single story building can still remain as the goal and, at the same time, operating costs can usually be lowered through mechanization of the present multi-story location. Any effort at streamlining is ordinarily progress in the right direction.

The personnel of a given organization have the power to increase the output or to keep the output of a poorly constructed warehouse at a high level, even when restrained by poor operating conditions. Likewise, an inefficient crew in the finest of warehouse structures, using the most efficient methods and machines, can render these advantages useless by their efforts through lack of proper training and improper supervision and management. Thus, an adequate training and supervision program for all personnel involved needs to be emphasized.

³W. H. Meserole. "New Technique for Grocery Warehouse." Domestic Commerce Reprint. May, 1945. p. 3.

A single story structure makes possible a more efficient operation than in a multi-story building. The fact that it is possible is no guarantee that a savings will be realized in the operation. Construction planning is an exceedingly important aspect of this increased efficiency. Each warehouse is usually built to fit the needs of a specific business. The manner in which these needs are supplied is dependent upon the proper planning before construction.

Chain, Independent and Voluntary Food Groups

A discussion of three specific operating wholesale organizations will be presented in following chapters. At the present time, an attempt will be made to present the comparative importance of voluntary, independent and corporate chain stores in national food distribution. This will be done by comparing sales and numbers of stores shown in Table II.

It should, first of all, be recognized that the total independent stores do a much greater volume than the chains. However, if these independent stores are reduced to those belonging to voluntary and retailer-owned groups and to the unaffiliated stores, it will be seen that the chain group becomes dominant as to the distribution of sales in the majority of years shown. The chain group does not lead in the number of stores. The number of stores of voluntary and cooperative groups are considerably greater in each year represented than are the number of stores with chain affiliation.

TABLE II
COMPARISON OF STORES TO SALES AND DISTRIBUTION
OF TOTAL SALES BY GROUPS BASED ON METHODS OF CONTROL*

Year	Sales of Total Stores (000,000 omitted)			Number of Stores			Distribution of Total Sales (Percent of Total)		
	Voluntary ^A	Chain	Indepen- dent ^B	Voluntary	Chain	Indepen- dent	Voluntary	Chain	Indepen- dent
1951	10,300	11,572	8,500	122,000	24,000	248,000	34	38	28
1948	7,800	9,510	7,300	115,000	27,700	260,500	32	39	29
1946	5,500	6,265	6,750	93,000	32,000	282,000	31	34	35
1944	4,510	4,650	5,100	92,000	33,000	258,000	32	33	35
1939	2,350	2,900	2,640	108,750	40,000	277,250	30	37	33

^AIncludes wholesaler-sponsored and stores belonging to retailer-owned cooperative.

^BUnaffiliated Stores

*Source: Facts in Food and Grocery Distribution. Published by the Progressive Grocer. New York. 1940-1952.

It is evident that the chain store is claiming a dominant proportion of total sales. This is being accomplished by comparatively few stores. The trend in the number of chain stores shows a marked decline over the 1939-1951 period. Independent stores show this decline to a lesser extent. On the other hand, the number of store units with voluntary affiliation have increased.

The warehouse of the corporate chain store is an example of integrated wholesaling. Such warehouses generally act as the headquarters for the officers of that particular division. There is no need for salesmen to contact retailers, but rather, supervisors may be thought of as performing part of the functions of the salesman employed by regular wholesalers. A highly scheduled and economical operation is possible, due to the complete control which the warehouse headquarters maintains over merchandise ordering by retail units. Since the retail unit must receive the bulk of its merchandise from the company warehouse, there is a possibility of reducing the line to the most rapidly selling items. There is no need for a credit department or credit investigation. However, the accounting department within such an organization takes on particular significance since the records for the stores of the entire branch are maintained by this warehouse.⁴

⁴Theodore N. Beckman and Nathanael H. Engle. Wholesaling Principles and Problems. New York: The Ronald Press, 1949. p. 259.

This study is next concerned with wholesaler-sponsored and retailer-owned cooperative stores. One of the features which brought these organizations together and still exists as a strong incentive is the benefit to be derived from horizontal cooperative advertising. Large scale centralized buying with attendant private brand development is another advantage of these two types of distributive organizations. In considering the factors which contribute strength to these groups, one must recognize the merchandising services and the closer relationship which the wholesale buyer is going to feel toward the retailer who looks to him for merchandise that will sell. Probably one of the most significant factors in the inception of organizations of this retailer-owned and wholesale-sponsored chain type is the emotional stimulation which both wholesaler and retailer share. Undoubtedly, the resultant re-dedication of efforts has increased the effectiveness of many businesses in our economy.⁵ These advantages are not gained without some disadvantages becoming apparent through the same organizational structure.

Retailers who have an ownership interest in a warehouse are likely to become discouraged through the legitimate conflict of interests. There is likely to be an overwhelming interest in the retail operation as compared to the wholesaling problems. Often the attempt at economy results in the

⁵Ibid., p. 280.

hiring of inadequately prepared management. The importance of management is increased in view of the fact that over-all operations can be enforced typically by no means stronger than suggestion or proposal.

The retailer of the wholesaler-sponsored chain has no money invested in the wholesaling phase and may, therefore, withdraw from the group more easily. The power of centralized control is again limited practically to a suggestion and proposal basis. The conflict of interests also exists as a considerable disadvantage. The group can have varying ideas about what cooperative action is due to the fact that not all of the members are in a position to operate in a like manner. The obvious solution is to attempt to obtain a group of retailers who have similar operational problems.⁶

There is a significant difference in the operating costs of voluntary group and retailer-owned warehouses. The figures in Table III also indicate operating cost fluctuations within the groups. It is believed that this range is due primarily to the differences in services rendered and the increase in efficiency of operations. In general, the retailer-owned group costs compare to those of the cash and carry wholesaler (5 percent) and wholesaler-sponsored group costs compare to those of the regular service wholesaler (10 percent).

⁶Ibid., p. 282.

TABLE III
OPERATING EXPENSES OF VOLUNTARY
GROUP AND RETAILER-OWNED WHOLESALERS 1941*

	Median	Range
Voluntary Group	9.50	6.97 - 14.40
Retail-owned cooperative	5.80	3.77 - 9.11

*Source: Theodore N. Beckman and Nathanael H. Engle. Wholesaling Principles and Problems. New York: Ronald Press, 1949. p. 259.

This expense was also shown to fluctuate relative to the amount of sales to retail owners or voluntary members. This condition, illustrated by Tables IV and V, stresses the importance of the unity of effort or the value of cooperation between wholesaling and retailing phases.

History of Food Wholesaling

Food wholesaling has always been closely dependent upon the facilities of transportation. During the nineteenth century period, water transportation was the principal mode used for large quantity transporting. Thus, warehouses were located along water fronts of seaports, canals and river harbors. Much competition developed among wholesale businesses for the more desirable location sites. This resulted in the building of multi-story units rather than single floor warehouses.

The introduction of the elevator in the 1850's did much to perpetuate the multi-story warehouse. Previously, many other rigger's devices had been used in the raising and lowering of goods. The elevator was more efficient than any of these devices and resulted in an operational saving to the benefit of the wholesaler.

During this period, products were packaged in a considerably different manner than they are today. The barrel, bale, hogshead, cask, chest and sack constituted the shipping containers in greatest use. These items were bulky and heavy

TABLE IV
RETAILER COOPERATIVE GROCERY WAREHOUSES
PERCENTAGE OF SALES TO RETAILER OWNERS: 1948*

Percent of Sales to Retail Owners	Establishments	Sales	Operating Expenses . Percent of Sales
90 percent or more	132	421,071,000	4.2
80-89.9 percent	8	3,173,000	5.7
70-79.9 percent	6	21,362,000	7.3
Less than 70 percent	12	15,707,000	6.7
Not reporting	53	121,027,000	5.4

*Source: U. S. Census of Bus. 1948 Vol. IV. Table 8F. p. 8.46

TABLE V
VOLUNTARY GROUP WHOLESALERS
PERCENTAGE OF SALES TO GROUP MEMBERS: 1948*

Percent of Sales to Group Members	Establishments	Sales	Operating Expenses Percent of Sales
90 percent or more	54	228,603,000	5.8
70-89.9 percent	70	204,014,000	6.9
50-69.9 percent	74	158,689,000	8.3
30-49.9 percent	74	158,740,000	8.0
10-29.9 percent	126	290,192,000	9.1
Less than 10 percent	24	98,837,000	10.1
Not reporting	213	494,879,000	9.7

*Source: U. S. Census of Bus. 1948. Vol. IV, Table 8E. p. 8.45.

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exceeding greatly the average fifty pound unit package of today. Because of this and in an effort to increase storage space, low ceilings along with many floors characterized the warehouse construction. The low ceiling is poorly adapted to the modern warehouse operation which often stacks goods to considerable heights.⁷

The grocer of this period was naturally influenced to a large extent by the progress and influence of the wholesaler who was the principal source of supply for the retailer. The goods which the grocer received were in bulk quantities requiring re-packaging in many instances. This activity required much time which added to the necessity of having 30 and 40 percent margins. Many food products were produced by the consuming unit. This condition supported the low volume operation which produced yearly sales per employee of \$2,000 to \$3,000.⁸

Always following the dominant factor in transportation, the railroads supplied the impetus for wholesalers to move from the waterfront to the railroad. The re-locating of warehouses did not result in improved buildings. Wholesalers

⁷Modernizing and Operating Grocery Warehouses. United States Department of Commerce. Domestic Commerce Series Number 26. U. S. Government Printing Office, Washington, D. C. 1951

⁸George E. Kline. "How Stores Have Changed Over The Years." The Progressive Grocer. 31:10, October 1952. p. 54.

continued to express the tendency to disregard the influence which physical facilities have on operating costs until after the first World War.

The competition of the corporate chain forced the realization of the necessity of reducing operating costs upon the wholesale business. The problems of materials handling became of significance with the advent of the Davidson System in the late 1920's. This system attempted to apply the savings of the assembly line techniques to materials handling in the warehouse. The importance of construction, use of mechanization and other time saving devices are now generally recognized throughout the food wholesaling industry. However, the vast majority of food wholesalers still continue to operate from multi-story buildings.⁹

The retail phase of the industry has progressed as fast, if not faster, than wholesaling in the improvement of methods. One of the greatest progressive steps at the retail level is the change from service to self-service. The story of this change is factually presented by a study of percentage margins and yearly sales per employee as shown in Table VI. The revolutionary effects of self-service in food retailing has had far reaching effects within the entire food industry. Self-service and volume selling started out hand-in-hand.

⁹Modernizing and Operating Grocery Warehouses. Op. cit., p. 2.

TABLE VI
GROCERY MARGINS AND SALES PER EMPLOYEE*

Year	Annual Sales per Employee	Margin Percent	Remarks
19th c.	\$2,000 - 3,000	30 - 40	
1900	4,000 - 5,000	25 - 30	Service stores Goods out of reach of customer
1925	8,000 -10,000	20 - 25	More packaged goods More perishable goods
1946	26,000	15 - 20	31 percent with self- service
1951	42,000	-	76 percent of sales made in self-service stores

*Source: George E. Kline. "How Stores Have Changed
Over The Years." The Progressive Grocer.
31:10, October, 1952. p. 54.

Self-service lowered the operating expenses of retail stores. More emphasis was placed on the packaging of the product at the production level. The increased volume of the individual retail unit created a change in emphasis on sources of supply. The wholesaler began to lose his position of dominance in the field of food distribution which he held a century earlier. The former producer was characteristically a smaller, independent business man. The retailer also fitted into this classification. These operators relied heavily upon the wholesalers' service. Direct selling or buying was practically non-existent.

The present expansion of manufacturing into mass-producing industries has placed increased emphasis upon manufacturers' sales volume. The unwillingness of wholesalers to promote one single manufacturer's line stimulated the activity of direct selling. The development of large scale retailing with the attendant interest over cost control and price appeal have generated pressure for direct purchasing in hopes of obtaining goods at a lower price than through the other channels of distribution.¹⁰

Table VI indicates in condensed form the evolution of food retailing. The nineteenth century store had the lowest

¹⁰Nathanael H. Engle. "Chain Store Distribution vs. Independent Wholesaling." Journal of Marketing. September, 1949. p. 241.

sales per employee and the highest markup. A gradual progression is shown toward higher sales per employee and a resultant reduction in the markup percentage on the individual item. The higher sales volume makes possible this reduced differential between purchase and selling price, because of the profit influence of merchandise turnover. The increased emphasis on sales volume is indicated by the growing importance of self-service. Through this device, the largest sales per employee are obtainable, due to the fact that the personal selling on the part of the retail salesman is reduced. The customer selects the desired merchandise from conveniently accessible displays. The personal salesmanship has been partially replaced by other types of salesmanship which the well informed food merchandiser must be aware of and must utilize to get the maximum sales per employee and the maximum efficiency from his enterprise.

Prepackaging is one of the important tools of self-service merchandising. The package partially replaces the salesman, and the importance of packaging is indicated in Table VI as it progresses in relation to the increase in sales per employee. A self-service package must attract attention, develop interest and give information about the product in a manner which is effective enough to close the sale.¹¹ The

¹¹Egmont Arens. Chap. 18. "Packaging for the Mass Market." Paul Sayers, Editor. Food Marketing. New York: McGraw-Hill. 1950. p. 226.

size and design of the package makes it possible for the customer to select with ease.

The higher sales per employee shown for 1951 is the result of self-service, prepackaging and the other factors of mass marketing of food at retail. The differential between sales and cost price is not shown for 1951, but current reports indicate this is in the vicinity of 17 percent for the combined sales of groceries, fresh meats and fresh fruits and vegetables.

Trends in Distribution Channels

Traditionally the wholesaler of the nineteenth century was the dominant figure in the marketing of all consumer goods. He was the important financier of the manufacturer and the retailer. This was due largely to the fact that there was a smaller, agrarian population in the nation with a slower stock turnover resulting. Transportation and production were slower, requiring retailers to carry larger inventories. Thus, large stocks with slow inventory turnover made heavy demands on the working capital.

After the Civil War, changes began to occur in manufacturing. Machines with increased efficiency were developed and costs were generally reduced in manufacturing. The increased volume production with attendant decreased costs per unit set the stage for the entry of the business philosophy of large volume, low margin selling.

Manufacturers now began a drive for volume sales. This was done by branding and advertising in an attempt to differentiate a particular product to the consumer. This advertising and promotional activity on behalf of the manufacturer resulted in demand creation. Since the manufacturer was directly responsible for creating this demand, there was reluctance on his part to allow the wholesaler the usual margin of profit. Volume, low cost per unit selling was much slower to be accepted by the wholesaler than by the manufacturer.¹²

In an attempt to combat this demand for lower selling profits which were being imposed by manufacturers, the wholesaler established private labels of his own which provided him with a larger margin and, in turn, received the selling emphasis of the wholesaler. Activity of this type served to split the manufacturer and wholesaler farther apart.

The last quarter of the nineteenth century saw the beginning of the growth of large scale, integrated retail organizations, such as, department stores, chain stores, mail order houses, and supermarkets. Each of these organizations was interested in obtaining volume through lower selling prices. This goal was made possible by the following activity. These organizations purchased directly from the

¹²Edward A. Duddy and David A. Revzan. Marketing. New York: McGraw-Hill Company, Inc., 1947. p. 252.

manufacturer in large quantities. They dispensed with many services on the behalf of the retailer. They operated in cities where population was dense. In this manner, they were able to undersell the independent retailer who was the customer of the wholesaler.

It was becoming obvious to wholesalers that they were being faced with a problem involving both horizontal and vertical integration. The success of the wholesale business was dependent upon the success of the wholesalers' customers. The retailers' doors were never locked against the salesmen of other wholesalers. However, if the retailer was to be successful, he must make it possible for the wholesaler to operate economically. The chain organization represents a streamlining between producer and consumer. This condition is important to the independent retailer. The independent must realize that his help in reducing wholesaler expenses is actually reducing the cost of goods at the retail level.

On the other hand, the wholesaler must respect the problems of the retailer. This would be indicated by assisting the retailer to buy judiciously and to avoid overstocking. Furthermore, only merchandise needed by the customer and immediately deliverable to the retailer should be sold. Finally, the wholesaler had to become interested in cooperating completely with the retailer in all possible phases and to help the retailer to operate a better store.

The full service wholesaler is traditionally the person referred to when the word "wholesaler" is used in common parlance. In 1929, it was estimated that one-half of the total supply of manufactured consumer goods passed through the hands of a service wholesaler. Data obtained by Census of Business surveys between 1929-1948 indicate that the number of such wholesalers has increased 79,784 to 146,518, although their overall sales have declined (See Tables VII and VIII).

During war years, there is an indicated shift to direct selling. It is believed that the companies are discovering a higher cost in direct selling to get comparable distribution. The wholesaler is the key factor in distributing a relatively low priced article which is sold in comparatively small quantities to a large number of outlets over a wide geographic area. Items successfully jobbed by wholesalers are most specifically those which manufacturers merchandise by advertising, sales promotion and retail missionary work. The manufacturer must have a sufficiently wide distribution before any return can be realized on money spent for sales promotion.

Direct distribution on the part of manufacturers incurs heavy investment in fixed assets, inventory and salaries. These represent, to some extent, inelastic costs which are inflexible in periods of declining sales. Direct distribution

TABLE VII
NUMBER OF WHOLESALE ESTABLISHMENTS
BY TYPE*

Year	Total	Whole- salers	Manufacturers Sales Branches	Bulk Tank Stations	Chain Store Ware- houses	Agents and Brokers	Country Assemblers
1929	169,654	79,784	17,086	19,611	559	18,388	34,226
1933	164,170	82,865	16,876	26,190	462	13,818	23,962
1939	201,749	101,627	18,096	30,825	1,176	20,903	29,122
1948	243,366	146,518	23,768	29,451		24,361	19,268

*Sources: National Association of Wholesalers.

U. S. Census of Business, 1948. Vol. IV. Wholesale Trade. Table 1C,
p. 105.

Theodore N. Beckman and Nathanael H. Engle. Wholesaling. New York:
Ronald Press, 1949. p. 121.

TABLE VIII

WHOLESALE ESTABLISHMENTS
BY PERCENT OF SALES*

Year	Total	Whole- salers	Manufacturers Sales Branches	Bulk Tank Stations	Chain Store Ware- houses	Country Assemblers	Agents and Brokers
1929	100	42.5	23.7	3.4	2.8	6.9	20.7
1933	100	40.4	23.5	5.9	4.5	5.5	20.2
1939	100	40.9	23.4	6.6	4.4	5.3	19.4
1948	100	42.3	28.0	5.6	-	5.3	18.4

*Sources: Theodore N. Beckman and Nathanael H. Engle. Wholesaling. New York: Ronald Press, 1949. p. 121.

National Association of Wholesalers.

by the manufacturer is enhanced by large scale production. A long line of merchandise of a high unit value or perishable or style goods also aids in direct distribution. The success of a direct distributing manufacturer is augmented by a strong financial position and a densely populated market of large unit purchasers.

Tables VII and VIII point out three things of relative importance for this discussion. From this data, it can be observed that there is a decline in the total sales of wholesalers proper classification and an attendant increase in the number of businesses in this classification. Wholesalers proper are those organizations which are usually independent and are engaged in the buying and selling of goods on their own account. This includes wholesale merchants, exporters, importers, and limited function wholesalers.

The information listed under the classification of agents and brokers indicates a similar condition to that found under wholesalers proper. However, there is shown here a decline in sales associated with a mild increase in the number of establishments. A broker is defined as a wholesale middleman who negotiates transactions between buyers and sellers without having direct physical control of the goods. They transfer important market information to their principals and are paid a commission on sales of the product in the territory over which they have selling jurisdiction. Selling

agents operate similarly to brokers except that they are given full authority as to prices, terms and sales territory.

The manufacturer's sales branches are wholesale outlets owned and operated by manufacturers. They are used almost entirely for the distribution of their own products. These sales branches are of the type which carry no stock, but act as a sales office specifically, and those that do carry a stock on hand and, thus function in the capacity of a specialty wholesaler to a limited extent. During the 1929-1948 period, a rather marked increase is shown in the sales from manufacturers' sales branches. This sales increase is also accompanied by an increase in the number of outlets of this type.

Table IX presents the comparative importance of the three types of wholesaler establishments shown. The service wholesaler occupies the most important position in sales as well as numbers. From a sales standpoint, the 1933 depression period had a more serious effect on the service wholesaler group. The number of chain store warehouses was reduced during this period, but sales for the same 1933 period increased considerably.

Thus, it is evident that there was a tendency toward a reduction in numbers of chain store warehouses during the depressed economic conditions of 1933. The increase in sales of the chain warehouses in this same period reveals the

TABLE IX

GROWTH TRENDS OF THREE TYPES OF
WHOLESALE ESTABLISHMENTS*

	Number of Establishments			Net Sales Percent of Total		
	1929	1933	1939	1929	1933	1939
Service wholesalers ^a	74,476	76,856	94,128	36.8	35.2	35.6
Limited function wholesalers ^b	2,292	3,380	4,755	0.9	1.1	1.5
Chain store ware- houses	559	462	1,176	2.8	4.5	4.4

^aIncludes wholesale merchants, voluntary group wholesalers, converters, and industrial distributors

^bCash and carry wholesalers, drop shippers, wagon distributors, retailer-cooperative warehouses.

*Source: Theodore N. Beckman and Nathanael H. Engle. Wholesaling. New York: Ronald Press, 1949. p. 121.

greater influence claimed by this group in the less active as compared to a more prosperous economic period. It can be seen that there has been a definite increase in chain store warehouses between the years 1933-1939. However, their influence on the total market has not changed to any considerable extent.

The following pages will attempt to present a living comparison. This introduction furnishes background information on wholesaling in general as well as some specific types. It is thereby intended that the reader might become better acquainted with the structure of the whole as well as the elements to be analyzed.

CHAPTER II

A CORPORATE FOOD CHAIN

History

The founder of this business, Bernard Henry Kroger, was the son of a German immigrant who came to this country in 1821. The post Civil War depression period was the scene of the failure of the elder Kroger's dry goods business in Cincinnati. At the age of 13, the younger Kroger obtained his first job which was in a drug store. His next job was with the Great Northern and Pacific Tea Company. He was fifteen years old when he took this job which introduced him to the grocery business. His duties with this organization were to solicit orders for coffee, tea and sugar. Then he helped fill and deliver the orders, being paid a 3 percent commission on his sales of coffee and tea.

Mr. Kroger worked for two other small sized grocery businesses before organizing his own store. He was made manager of the last store in which he worked. This store had been showing consistent past losses. The store's business increased a great deal under the first year of Mr. Kroger's managership. The managership had been accepted on the basis of a \$12.00 a week salary and 10 percent of the profits, if any. At the end of the year, Mr. Kroger's bid for a partnership in the business was refused. This is when Mr. Kroger,

along with his partner, Mr. Brannigan, went into business for themselves.

Two major setbacks were encountered in the first year of operation of the new organization. A wagon route was one of the first and foremost features which Mr. Kroger emphasized in the new business. An expensive horse, new wagon and harness were purchased by the partners for the wagon route. The horse and wagon, loaded with groceries, were destroyed in a collision with a train. The partner, who was in the wagon, was not injured. The business was located in Cincinnati on Pearl Street very close to the Ohio River. Mr. Kroger arrived at the store one morning to find that the river had risen and the store floor was covered with three feet of water. The partnership had begun with a capital of \$772.00. At the end of the year, despite the setbacks mentioned, the assets of the business were \$2,600.00. No net profit was indicated.¹

Mr. Kroger purchased his partner's interest the following year. A problem soon presented itself in that the store lease expired. The lessor demanded more rent from this successful business man. People told Mr. Kroger that his business was successful because he had a good location. However, Mr. Kroger felt that there were more facts concerned with his success as a grocer than location alone. Against popular

¹The Kroger Company. Mimeographed Material.

advice, Barney Kroger decided to give up his advantageous location and move into a new location which was on a side street.

Mr. Kroger's hunch was justified. His old customers stayed with him and he obtained new customers regularly. When Mr. Brannigan's share in the business had been purchased, the name of the business was changed to the Great Western Tea Company. Kroger's success with the one store stimulated his interest in obtaining other stores. In 1885, two new stores were opened, and there were seven stores by 1891; 17 stores by 1893. The Kroger chain organization had begun to take form.

The business was incorporated in Ohio in 1902 as the Kroger Grocery and Baking Company. A sizeable increase in the number of stores was evidenced by the acquisition of the Great China Tea Company in 1908. Further growth through various other purchases is indicated by Table X.

In 1943, the company purchased the Manufacturers and Merchants Indemnity Company. Another subsidiary is the Wesco Foods Company which is active in the buying of fresh fruits and vegetables. The present name of the Kroger Company was adopted in 1946. This company, as of December 29, 1951, operated 1,978 stores and had a total net sales of \$997,086,000.²

²John Moody. Moody's Manual of Investments. 1952. p. 1866.

The Kroger Company now operates 25 branch offices which control a total of 1,985 stores. These stores are located in 1,392 cities. Each branch has a great degree of independence from the remainder of the company. The complete Kroger organization includes 21 manufacturing plants and 29 warehouses.³ A recent report announced that total sales for this company had topped the one billion dollar mark. This volume made the Kroger Company the twenty-sixth United States' business to reach the one billion dollar sales figure.⁴

The general office of the entire company is located at Cincinnati, Ohio. The various divisions of this office are presented on the following page, Chart 1. Since it is a corporation, the stockholders, represented through the board of directors, are at the head of the entire organization. Next in line of authority is the president.

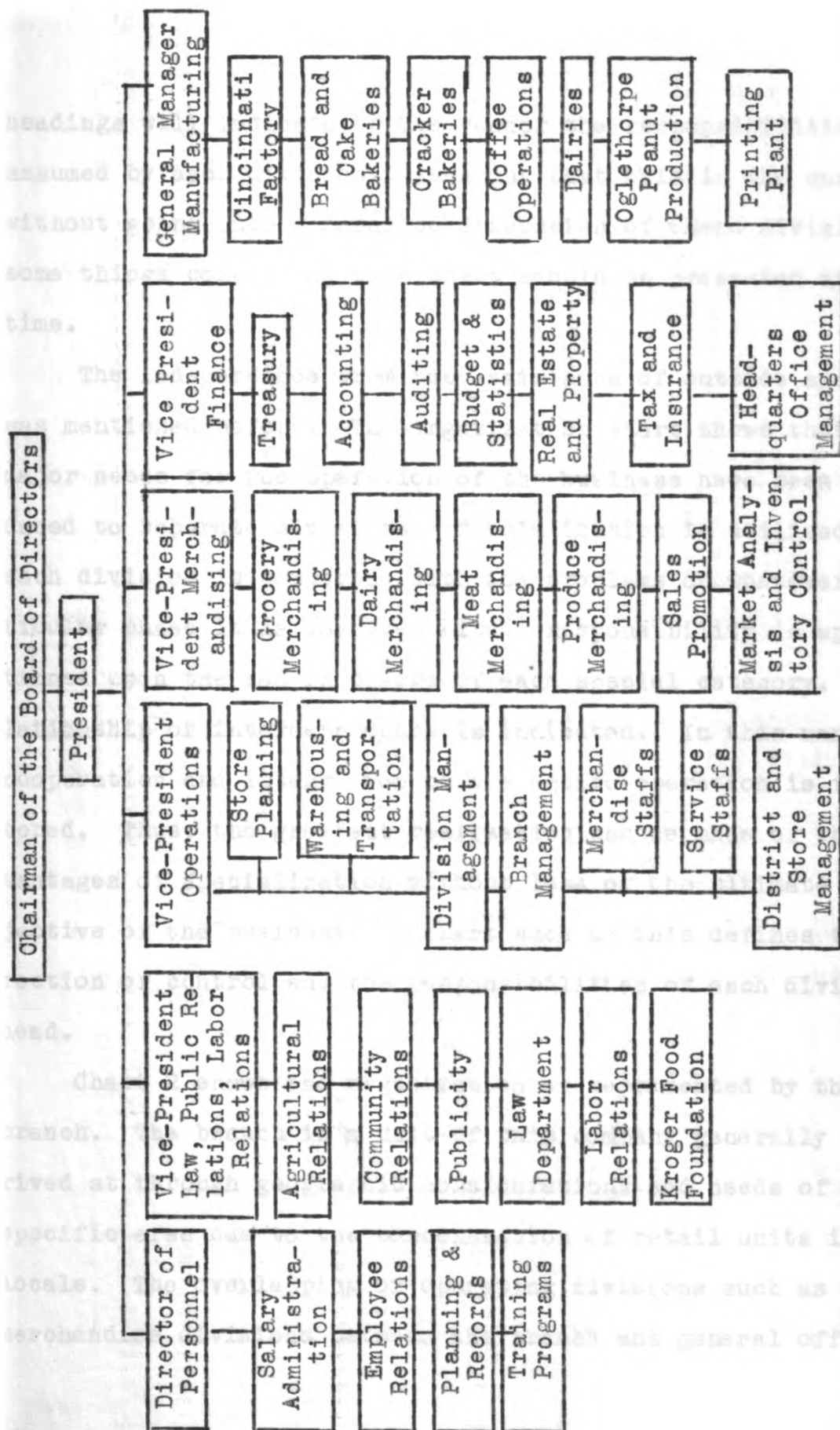
The divisions on the organizational chart indicate the scope of the company. Few outside agencies have to be called upon for the business to accomplish its goal. The manufacturing of merchandise is controlled to a limited extent. It will be noted that many of these divisions of the general office are again represented at the branch level. The

³Thomas Fanos, Jr. A Study of the Construction of Newspaper Advertisements Within Retail Food Chains. A Thesis. Michigan State College. 1952. p. 85.

⁴Time. February 23, 1953. p. 94.

CHART 1

ORGANIZATION OF THE KROGER COMPANY*



*Source: Mimeographed Kroger Company Information.

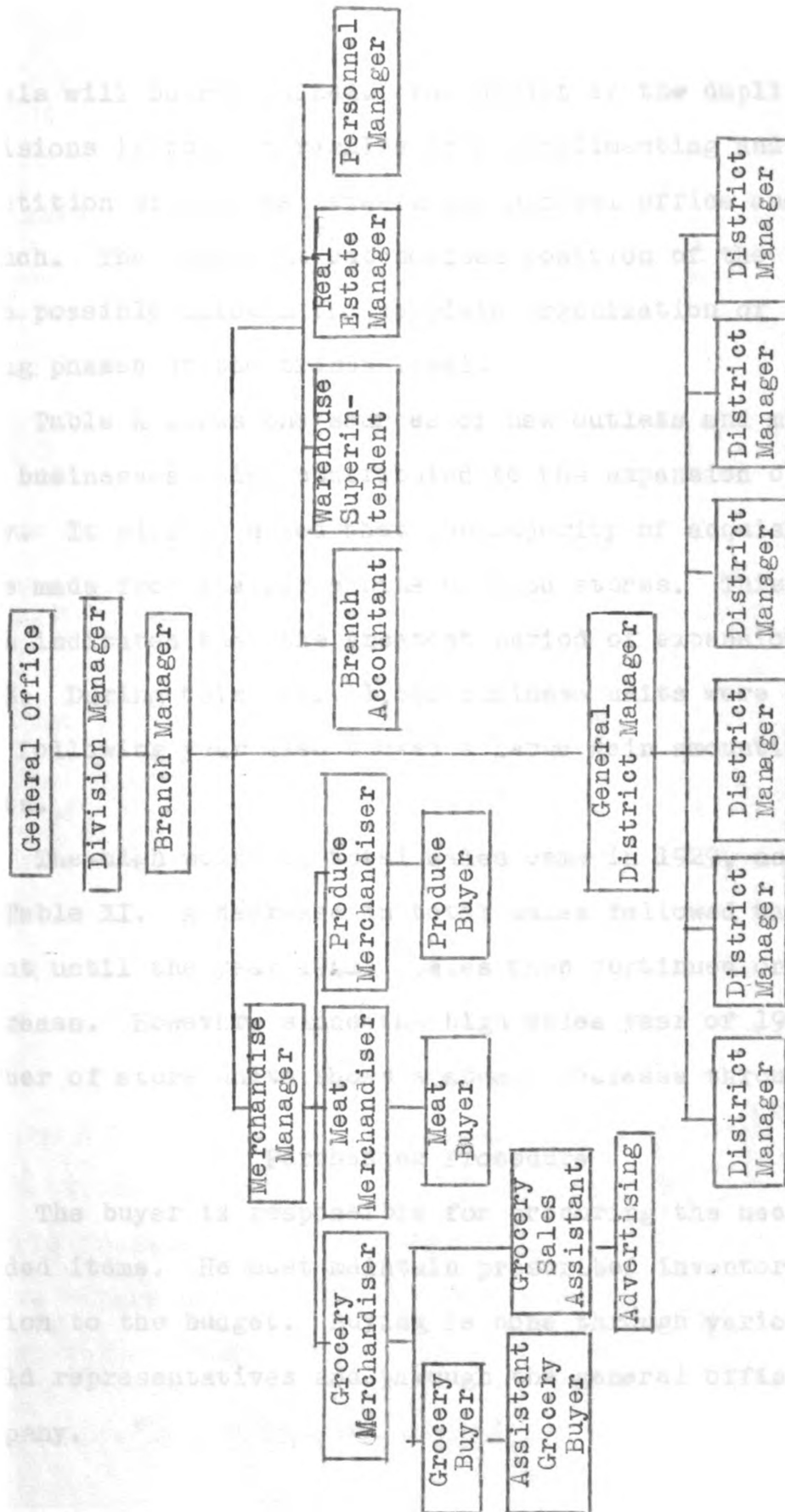
headings will indicate to the reader the responsibilities assumed by each division. Assuming that this is the case and without going into a detailed discussion of these divisions, some things concerning this chart should be presented at this time.

The independence from the assistance of outside agencies was mentioned before. The organization chart shows that the major needs for the operation of the business have been reduced to separate divisions. Specialization is utilized as each division is concerned with the problems of whatever particular phase it is involved with. Responsibility is apportioned upon the men in charge of each special category. Relationship or interdependence is indicated. In this manner cooperation and integration of the entire operation is fostered. Thus, the greatest realization can be made of the advantages of specialization without loss of the ultimate objective of the business. A chart such as this defines the direction of control and the responsibilities of each division head.

Chart 2 shows the organization as represented by the branch. The branch is a unit of this company generally arrived at through geographic considerations and needs of a specific area due to the concentration of retail units in that locale. The overlapping of operating divisions such as the merchandise divisions between the branch and general office

CHART 2

KROGER BRANCH ORGANIZATION*



*Source: The Kroger Company. Mimeographed Information.

levels will be recognized. The object in the duplication of divisions is to gain results in a complimenting and not in a repetition of efforts between the general office and the branch. The important autononical position of the branch is made possible through the complete organization of all operating phases at the branch level.

Table X shows the sources of new outlets and manufacturing businesses which contributed to the expansion of the company. It will be noted that the majority of acquisitions were made from smaller chains of food stores. This information indicates that the greatest period of expansion came in 1928. During this year, 1,660 business units were purchased. The following year also showed a large gain amounting to 592 units.

The high point in total sales came in 1929, as indicated in Table XI. A decrease in total sales followed this high point until the year 1941. Sales then continued on a yearly increase. However, since the high sales year of 1929, the number of store units shows a steady decrease through 1952.

Purchasing Procedure

The buyer is responsible for procuring the necessary needed items. He must maintain prescribed inventories in relation to the budget. Buying is done through various company field representatives and through the general offices of the company.

TABLE X
ACQUISITION OF STORES*

Name	City	Year	Stores
Cincinnati Grocery Co.	Dayton, Ohio	1903	-
Schaeffer Grocery Co.	-	1903	-
Shappell Nagel Company	Cincinnati, Ohio	1904	14
Great China Tea Company	Cincinnati, Ohio	1908	40
Schneider Gro. & Baking Co.	" "	1908	15
Maurer Remley Meat & Grocery Company	St. Louis, Mo.	1912	25
Ohio Grocery & Baking Co.	Columbus, Ohio	1916	8
Community Grocery Co.	Detroit, Mich.	1917	104
Raleigh Stores	-	1917	8
Schneider Bros. - Wayne Wholesale Grocery	Detroit, Mich.	1916	13
Tanian Brothers	Columbus, Ohio	1917	12
Tiedtke Thrift Stores	Toledo, Ohio	1924	48
D. P. Childs Stores	Indianapolis, Ind.	1924	70
P. W. Sloan Co.	Paducah, Ky.	1927	-
Cleppe & Bartosch	Muskogee, Okla.	1928	5
P. W. Ellis Company	Indianapolis, Ind.	1928	4
Curtis Creamery	Grand Rapids, Mich.	1928	-
Three Rivers Grocery Co.	Fort Wayne, Ind.	1928	4
Hoosier Grocery Stores of Ft. Wayne	Fort Wayne, Ind.	1928	73
Foltz Grocery & Baking Co.	Cincinnati, Ohio	1928	195

TABLE X (Continued)

Name	City	Year	Stores
Missouri-Illinois Stores Company	St. Louis, Mo.	1928	148
Eagle Grocery Co.	Pittsburgh, Pa.	1928	114
C. Thomas Stores, Inc. (with subsidiary and affiliated companies)	Grand Rapids, Mich	1928	167
Piggly-Wiggly Valley Co.	Louisville, Ky.	1928	108
The Middle States Stores Company	Cin.-Dayton, O. (P.W.)	1928	30
The Columbus Piggly-Wiggly Co.	Columbus, Ohio	1928	31
Heilman Baking Co.	Madison, Wisc.	1928	none
Fly & Hobson Co.	Memphis, Tenn.	1928	115
Cox Stores	Little Rock, Ark.	1928	176
Sipes Service Stores	Oklahoma City, Okla.	1928	9
Piggly Wiggly Co.	Muskogee, Okla.	1928	5
Hoosier	Ft. Wayne, Ind.	1928	73
Universal	Madison, Wisc.	1928	81
Piggly Wiggly	Cincinnati, O.	1928	12
Piggly Wiggly	Dayton, Ohio	1928	19
P. W. & Kohn	St. Louis, Mo.	1928	148
Piggly Wiggly	Cleveland, Ohio	1928	19
Piggly Wiggly	Memphis, Tenn.	1928 P.W.	58
Mid-Continent Stores	Wichita, Kans.	1928	-

TABLE X (Continued)

Name	City	Year	Stores
Missouri-Ill. Realty Co.	St. Louis, Mo.	1928	-
Piggly Wiggly	Ft. Wayne, Ind.	1928	4
Piggly Wiggly	Indianapolis, Ind.	1928	8
Piggly Wiggly	Detroit, Mich.	1928	10
Piggly Wiggly Johnson	Grand Rapids, Mich.	1928	16
Dunn Stores	Wichita, Kans.	1928	28
Chas. Budnick Stores	Keystone, W. Va.	1929	-
Landrum & Sons	Ponce City, Okla.	1929	-
McDuvell P. W. Company	Melch, W. Va.	1929	-
Patterson Wholesale Grocer Co.	Harrisburg, Ill.	1929	-
Richard Bros.	Columbia, Mo.	1929	-
P. W. Franklin Co.	Tulsa, Okla.	1929	-
Roanoke Groc. & Milling Co.	Roanoke, Va.	1929	-
Consumers	Chicago, Ill.	1929	324
Keyes	Madison, Wisc.	1929	10
Piggly Wiggly - Irwin	Memphis, Tenn	1929	11
Piggly Wiggly & Lewis Ponca Stores	Oklahoma City, Okla.	1929	21
Piggly Wiggly - Franklin	Tulsa, Okla.	1929	15
Thrift (H. W. Bray & Co.)	Herrin, Ill.	1929	41
Milgram	Kansas City, Kans.	1929	35
Jamison	Roanoke, Va.	1929	91

TABLE X (Continued)

Name	City	Year	Stores
Piggly Wiggly	Roanoke, Va.	1929	8
Liberty	Roanoke, Va.	1929	5
Piggly Wiggly - Harrisburg	Herrin, Ill.	1929	2
Patterson Green Lantern	Herrin, Ill.	1929	12
National Tea	Kansas City, Kans.	1929	9
South Michigan Piggly Wiggly Co.	Battle Creek, Mich.	1930	8
Piggly Wiggly Haynes	Columbia, Mo.	1929	-
P. W. Oklahoma Co.	Tulsa, Okla.	1929	-
Jos. Peebles Sons	Cincinnati, O.	1932	1
Winn & Lovett	Atlanta, Ga.	1935	-
Larkin Stores	Peoria, Ill.	1937	67
P. H. Butler Co.	Pittsburgh, Pa.	1938	9
Oakley Stores	Terre Haute, Ind.	1939	58
Model Grocery & Baking Co.	Springfield, Mo.	1941	15
Carrs, Inc.	Janesville, Wis.	1945	6

*Source: The Kroger Company. Mimeographed Material.

TABLE XI
KROGER COMPANY SALES 1902 - 1951*

Year	Stores	Sales (In Thousands)
1882	1	(b)**
1885	3	(b)**
1891	7	(b)**
1893	17	(b)**
1902	40	1,751
1907	83	3,862
1910	119	6,448
1911	113	6,389
1912	157	8,070
1913	162	8,475
1914	196	9,283
1915	209	10,435
1916	258	12,556
1917	516	23,342
1918	554	25,851
1919	712	34,603
1920	903	50,706
1921	992	44,851
1922	1,413	53,754
1923	1,800	74,339
1924	2,127	90,125

TABLE XI (Continued)

Year	Stores	Sales (In Thousands)
1925	2,856	116,235
1926	3,369	146,009
1927	3,749	161,261
1928	5,260	207,373
1929	5,575	286,611
1930	5,165	267,094
1931	4,884	244,371
1932	4,737	213,160
1933	4,400	205,692
1934	4,352	221,175
1935	4,250	229,907
1936	4,212	242,273
1937	4,108	248,444
1938	3,992	231,295
1939	3,958	243,356
1940	3,727	258,115
1941	3,477	302,765
1942	3,174	388,847
1943	2,999	422,427
1944	2,896	448,381
1945	2,730	457,332
1946	2,611	567,487

TABLE XI (Continued)

Year	Stores	Sales (In Thousands)
1947	2,516	754,282
1948	2,349	825,668
1949	2,190	807,739
1950	2,054	861,243
1951	1,978	997,086
1952	1,927	(b)**

*Source: The Kroger Company. Mimeographed Material.

** (b) Unobtainable.

All canned fruits and vegetables are obtained at the branch warehouse level by ordering through the general office. This is thought of as buying from the general office. The procedure is identical to that of procurement through any other supplier. However, stocks of merchandise are not maintained at the general office. This office simply acts as an ordering organization for all of the branches concerning these items.

Negotiated buying of private label canned goods is a responsibility of the general office. Ordinarily several organizations are contracted as suppliers. The various branches then order the private label requirements directly from the manufacturing concern and not from the general office as is the case with other canned goods.

The branch produce buyer is in daily contact by phone with the produce subsidiary of the company which is located in Chicago. This subsidiary teletypes market information to the branch produce buyer daily. Using this information as a guide, the branch order is placed. The bulk of the fresh produce is purchased through this subsidiary, and the remainder of the items are obtained on the local market. Produce is warehoused in the branch warehouse and store deliveries are made several times a week to individual stores. The common practice is for daily produce deliveries.

Facilities are also available for the warehousing of meat products in the branch warehouse. All meat warehoused here is ordered from processing plants which are in no way a part of the company.

It is the responsibility of the branch buyer to arrive at the retail price. To aid in this, past records are maintained showing the markup percentage of each group of items and the resulting sales profit which this markup produced. The prices which are placed on the goods are the retail price. All selling price calculations are carried out at the warehouse level. The retail store manager is informed of these prices by means of printed forms commonly represented by the shipping invoice in non-centrally controlled businesses.

Purchasing of goods for this retail food chain are actually carried on through two levels similar in organization. These levels are represented by central office and branch office purchasing officers. Thus, there are found grocery, meat and produce merchandisers all of whom head a staff and, in turn, report to the vice-president in charge of merchandising. This is at the central office level. At the branch, there are also grocery, produce and meat merchandisers which, in turn, head a staff and are responsible to a merchandising manager or some officer who takes the place of a merchandising manager. In cases of smaller branches, this position is filled by the branch manager.

The similarity of organization does not mean that the functions at the two levels are of a duplicating nature. The grocery merchandiser at the branch level oversees the work of specialists who are responsible for the task of negotiated buying and the procuring of many other grocery products. The branch grocery buyer is then able to order his requirements through these central offices, knowing that the buying adjustments have been given every possible consideration necessary to aid in placing the product on the retail shelf of a store in his branch at the lowest possible cost. The meat, produce and, in some cases in which a special dairy department exists, dairy merchandisers work through their central office counterparts in a similar manner although differing as to form because of the fact that the other classes of products require different sources and, therefore, involve buying techniques which are necessarily different.

The merchandising staffs at the central office level employ buying specialists as was mentioned in the case of the grocery merchandiser. The meat merchandising department establishes contact with permanent buyers at the various meat market locations. Produce buyers report to the produce merchandising section of central office on conditions in the field of production. These men are constantly on the move during the various growing seasons because the varying climatic conditions produce changing markets throughout the

period of production. Permanent buyers are also employed in certain areas of heavy production such as the west coast.

Sales strategy planning is an important function of the central office. The merchandisers and buyers of the various departments naturally play an important role in sales strategy formation. The creation of sales plans requires the utmost knowledge of all persons concerned. From these meetings, policy for the future is determined. Advertising mats are distributed to the various branches. The advertising book and display catalogue further aid the branch in taking advantage of sales planning at the central office level. Through such centralized planning, bargaining power is also increased. There exists a clear cut, efficient medium through which co-ordinated sales planning involving producers can be carried out. In this manner, maximum utilization of the advantages which can be gained by working with manufacturers is possible.

The branch is allowed a great deal of tolerance in the utilization of the proposed advertising mats and general sales plan. This policy reflects the recognition of different markets in widely separated geographic areas. Further discussion is presented on this point under the section of this paper involved with advertising.

The branch level buying organization is typically represented by the same buying offices as at the central office level which include grocery, meat, produce and sometimes a separate dairy merchandising division. The buying phase it-

self is actually considered a part of the merchandising staff. In some cases, a buying office, such as grocery merchandiser, will contain a buying and a selling department. In other cases, the selling department function is primarily performed by the merchandise manager of the given merchandise division. This serves to incorporate a close relationship between sales and purchasing.

An example of the coordination of these merchandise departments is indicated by the technique followed in deciding upon a new product. A typical panel is formed of the merchandising staff, district managers, grocery buyer and sales representative. Hereby, an opinion is arrived at to either stock the particular item or to reject it. This is a varying procedure and in some cases a decision can not be made solely on the outcome of this meeting. The various groups closely involved with branch sales planning are also given an opportunity to aid in making the decision.

Similar coordination is shown by the planning of coming sales and advertising strategy. This is done through meetings of the merchandising staff, and other members of the company who have an interest in this policy formulation.

The survey form is also used to facilitate purchasing within the organization. This is the name given to a form which is sent to the various store managers within a district. The main objective of such a form is to gain information

concerning the volume of a certain item which a given store manager feels he can sell within a certain amount of time. Time enters into consideration because products which are surveyed are usually items that are receiving some type of promotional backing. It is, therefore, desirable for the store manager to coordinate his supply of this product with the length of time the promotion will be in effect. The store manager returns the survey form to the particular buyer involved. An accumulation of the total surveys can then be used by the buyer to control the amount which he is to purchase. The store manager must submit these survey forms to the buyer several days before the actual sale is to occur. The survey also serves the function of informing the store manager of products which are to be featured at a coming date. This, however, does not appear to be the primary function of the sales survey. The work of informing store managers is carried out by means of a special sales plan sent to them weekly.

In addition to surveys, buyers are aided by another report form which is filled in by the store manager. Such a form is used especially for seasonal items. The store manager receives this form at the same time he receives his order of merchandise. At the end of the sales period, the information is known concerning the amount ordered and sold. This includes consideration of the amount sold at price concessions,

and other information of value in the movement of the product over this period of time. The completed form is then returned to the buyer. The buyer then returns this same form one year hence to the same store from which it was received. The manager in the store then has the opportunity to see exactly what occurred last year concerning the sale of the particular product.

The experience of the buyer receives much attention when it comes to the selection of new products. Before the item is considered, the buyer must answer certain questions in his own mind about it, such as profit possibilities, storage requirements, how can it be merchandised, what is the backing of the manufacturer and what the competitive situation is. Upon this basis, the buyer makes his decision of whether or not to submit the product to the inspection of the merchandising board. The merchandising board consists mainly of all of the branch buyers and merchandise managers. If it is decided to show the item to the board at the next meeting, a check sheet is prepared by the buyer with the data of importance concerning the product in question.

The buyer also presents samples of similar items already contained in the line so that a comparison can be made between the old and the new at the time of the board meeting. Even if the board agrees to accept the new product, the buyer must decide the initial amount to be purchased. In many

cases, a test of the product is made by sending some of it to a few stores in the district. The sales in these few stores then indicates to the buyer the extent of his ordering in considering all of the stores. The sales could possibly show the buyer that the product should not be stocked at all. The test stores are used primarily for items which are entirely new. The product is tested for a given sales period and the decision to buy is aided by this sales information. This testing technique is variable. Some items receive no sales test at all.

Merchandise control and thus, buying at the wholesale level, has been greatly helped by inventory control machines. The principal involved here is the utilization of a model stock control plan. Stock reordering is based on this model stock plan. It should not be overlooked that the model stock is subject to constant revision since it is dependent upon such things as seasonal and economic factors.

Store Procurement

The personnel composing the branch management are generally located at the branch warehouse. This, then, becomes a focal point of the organization. The typical chain store warehouse assembles and stores dry groceries, fresh meats and fresh produce. The retail units then order from the branch warehouse.

In some cases, the standard order catalogue is used for

ordering goods from the warehouse. The quantity desired is marked in the catalogue with a wax pencil. The completed order is returned to the warehouse with the truck which brought the goods ordered the previous time. The order catalogue is arranged into sections. These sections correspond to the display arrangement of the products in the store. The order catalogue is not re-used.

Control sheets are used in ordering for the bakery, meat, produce and in the grocery departments of some branches. These sheets provide a means of recording past orders. This information covers a four week period. Ordering being done at the present time can be guided by referring to what has been ordered in the past. The control sheets supply a detailed history of past ordering and movement of the goods.

The ordering of dry groceries, and other products as well, is facilitated by the use of control sheets. The control sheet lists items in sequence as they are found displayed on the store shelves. The merchandise is also arranged in the same sequence in the warehouse. Space is allowed on the sheet for two orders a week for eight weeks. The store personnel write in the space provided the number of units of any given item desired. The decision concerning the number of units is facilitated by the knowledge of the number of units ordered in the past, which the control sheet shows, and the present inventory which is observed at the time of ordering.

The amounts written on the control sheet are then transferred to a sheet which lists only the code number of the article. This sheet is sent to the branch warehouse and the control sheet is retained by the store. Similar procedures are followed in the produce, dairy and meat departments.

The store manager is informed of the retail prices for merchandise delivered other than through the warehouse by a bulletin which is sent from the branch office. The salesmen contacting store managers must be cleared through the branch office before the company will honor any bills for merchandise purchased. The salesman must keep in contact with the general office concerning such things as price changes. Ordinarily sales of this type are on a contract basis for a given period of time. The retail price for the merchandise is determined at the time of the salesman's call at the general office. These prices are then sent to the store managers in bulletins from the branch office. Three copies are made of the order placed by the store manager at the time of the salesman's call. At the end of the week, the store manager sends all of his copies of orders for merchandise which he has purchased from salesmen to the branch office. The store is then charged for these goods at retail. The salesman also sends a copy of the receipted bill to the branch office. The salesman's copy and the copy sent by the store manager are then compared and paid.

The following page shows a representation of the order form and the control sheet form. No attempt has been made to represent these by scale. The content, however, is the same as the forms used in practice. These are samples of the forms used in the grocery department of the food store. The meat, produce, bakery and dairy departments also utilize the control sheet principle in ordering although they take on a different form from the ones represented here.

The store manager is informed of merchandise to be featured through a sales plan sent to him before the time of ordering in the store. Other techniques are used to keep store personnel posted on merchandise which is receiving special promotion. The district manager plays an important role in this respect along with special announcements mailed to store managers from various merchandisers at the branch headquarters.

Farm products or any products purchased locally are paid for in cash by the store manager. The receipt for these goods is then sent to the branch office. Charges are made back to the store at retail.

The ideal condition would be to have one order delivered to each store each week. This rule varies with backroom storage area, sales volume and other considerations. Emergency deliveries can be obtained usually in the same day that the emergency order is placed.

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Each store is given a prescribed time for its orders to be in the warehouse. The order is placed approximately four days before it is received. Some of the larger volume stores have three deliveries a week scheduled. These stores divide the order into three sections. Ordering is done for one section of the store at a time and each section comprises a load of merchandise. The entire store is not covered in the ordering process when this method is used. Some managers prefer to order for the entire store even when the orders are received three times a week. All merchandise is billed to the store at retail price. The manager does not calculate the retail price of any of the merchandise.

Store Supervision

The store manager is under the direction of a district manager who is in turn under the supervision of the general district manager. The district manager is available to assist the store manager at any time a special problem arises where the store manager considers that his aid is needed. The district manager also makes regular unscheduled calls on the various stores in the district. A district usually contains about ten stores and the district manager is responsible for the proper operation of each one of these stores. When something goes wrong, such as consistent inventory shortages, he must spend a considerable amount of his time at this

one store in an attempt to aid the store manager in solving the problem involved.

The general district manager controls the operation of all stores in the district through store reports. These reports are in the form of weekly sales reports with a comparison of the sales for this same week one year ago along with the sales of the immediately preceding week. The number of clerk hours to sales is also reported (one clerk hour for each \$100 sales is the goal). Period inventory reports are also sent in to the district manager as well as weekly cash register balance reports showing the cash register overages and shortages for the past week. The general district manager also visits districts along with the district manager. The general district manager must confine his visits generally to districts which have the most pressing problems.

Merchandising Program

The principal function of a distributing organization such as this one is selling. All activities must be pointed toward the ultimate goal of increasing sales. Merchandising meetings are designed to coordinate the selling activities of the entire organization.

The merchandising personnel of the branch office consists principally of grocery, produce and meat buyers and the merchandise managers. The buyers are responsible to the merchandising manager who is, in turn, responsible to the branch manager. A merchandising board is centered around

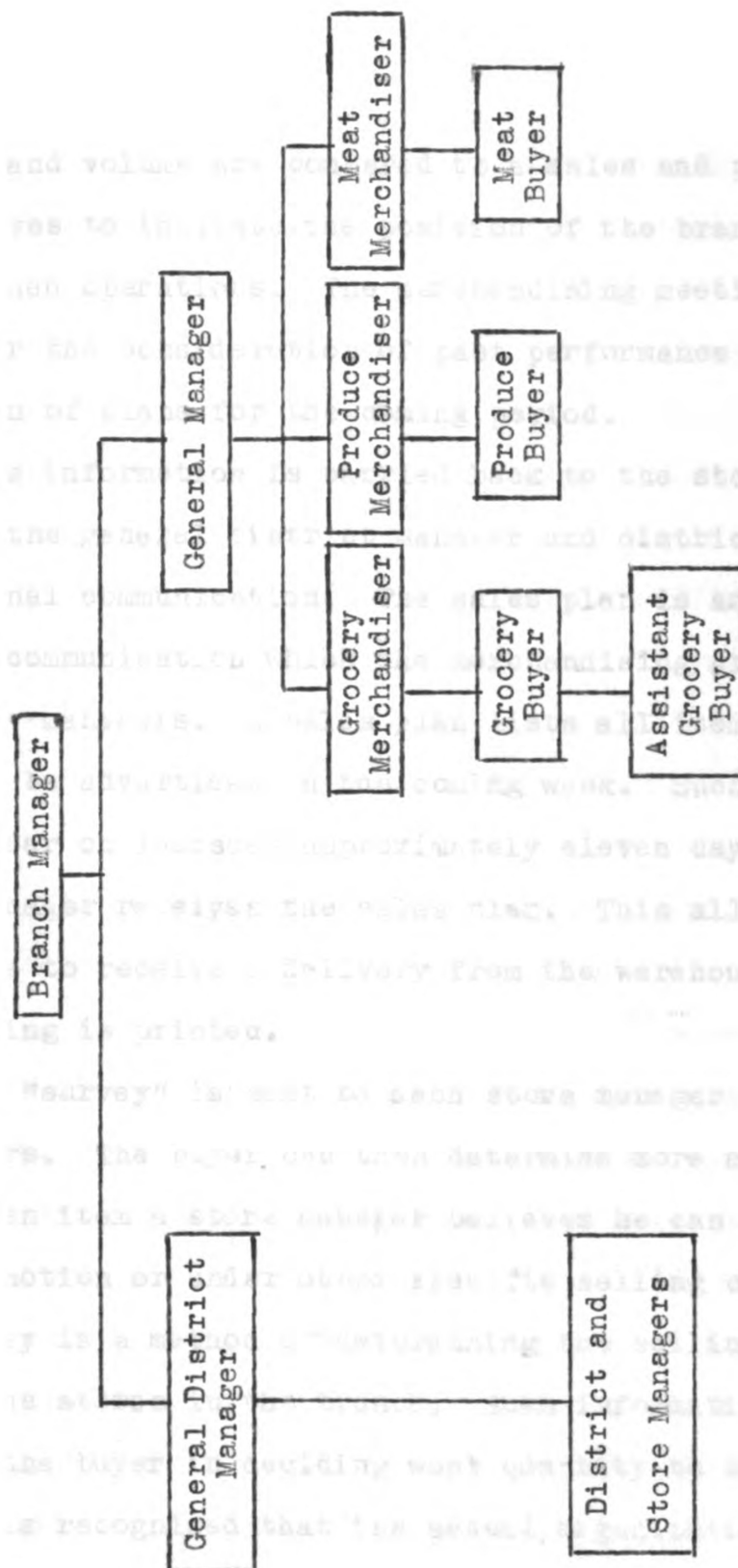
these individuals at the branch level. Other persons on such a board are district managers, advertising department representatives, and warehouse and service department officers. Store managers ordinarily attend these meetings on a rotating basis (See Chart 3).

During their weekly meetings, new products are presented to the group. Their feeling is obtained as to whether or not the product should be stocked. At this time, cans of goods are often opened and samples are judged. The buyer has an opportunity to present all of the facts concerned with the product which would affect the sale. Each man on the merchandising board states his opinion concerning the product and its sales potential.

Advertising and special sales promotions are presented for the coming sales period. The advertising layout is presented to the group just as it is to appear in the paper for each of the four weeks. Each person on the board is permitted to express his opinion concerning the advertising. There are times when the advertising man must re-plan his entire layout due to the group opinion. There are other times when the layout is not changed in any way. Further discussion will be presented concerning the mechanics of the advertising department in this chain organization.

Sales performance for the past period is reviewed at this meeting. The performance record indicates the weakness which can be overcome by proper action in the coming period. Sales

CHART 3
DISTRICT MERCHANDISING ORGANIZATION
OF A CHAIN FOOD DISTRIBUTIVE ORGANIZATION*



*Source: Mimeographed Information from The Kroger Company.

profits and volume are compared to a sales and profit budget. This serves to indicate the position of the branch concerning planned operations. The merchandising meeting is provided for the consideration of past performance and the presentation of plans for the coming period.

This information is carried back to the store managers through the general district manager and district managers by personal communication. The sales plan is an important printed communication which the merchandising group has with the store managers. A sales plan lists all items which are going to be advertised in the coming week. Such advertising will appear on Thursday approximately eleven days after the store manager receives the sales plan. This allows time for the store to receive a delivery from the warehouse before the advertising is printed.

The "survey" is sent to each store manager by any one of the buyers. The buyer can then determine more accurately how much of an item a store manager believes he can sell during this promotion or under other specific selling conditions. The survey is a method of determining the selling potential of all the stores in the branch. Such information is then used by the buyer in deciding what quantity to buy.

It is recognized that the actual organization of the weekly sales meetings is variable. At regular intervals, the planners of sales strategy meet with the field organization

personnel primarily responsible for the successful execution of sales strategy. Such is the general pattern of the sales meeting.

The field group is given recognition through these meetings. They are allowed to participate in future sales planning. Reasons for policies can be stated at this time and any questions arising clarified at once. It provides the opportunity for the responsible personnel in a selling organization to meet for a short period each week to take part in a planned program for future progress. The exact techniques used to accomplish a sales objective are necessarily variable, reflecting the personalities of the group. However, the overtone of optimism appears to be a constant element in the effort to accomplish the selling objective.

The period sales meeting which is held once a month is a larger meeting than the weekly merchandising meetings that are held each Monday. Plans for the entire four week period are discussed at the period meeting. District managers and some store managers are included at this time. The weekly merchandising meetings consist principally of the merchandising heads, buyers, advertising and management departments. In general, the weekly meeting is a follow through on the plans of the period meeting and is a less extensive meeting as far as policy formulation and number of employees present are concerned.

Advertising⁵

The advertising of this grocery chain is approached through two advertising organizations within the company. The functioning of these two advertising departments and the relationships of one to the other will be explained.

The organizational chart of the general office indicates an advertising department located under the sales promotion department which is part of the merchandising division of the general office. A more complete idea of the organization of the general office advertising staff is shown by the following chart (Chart 4).

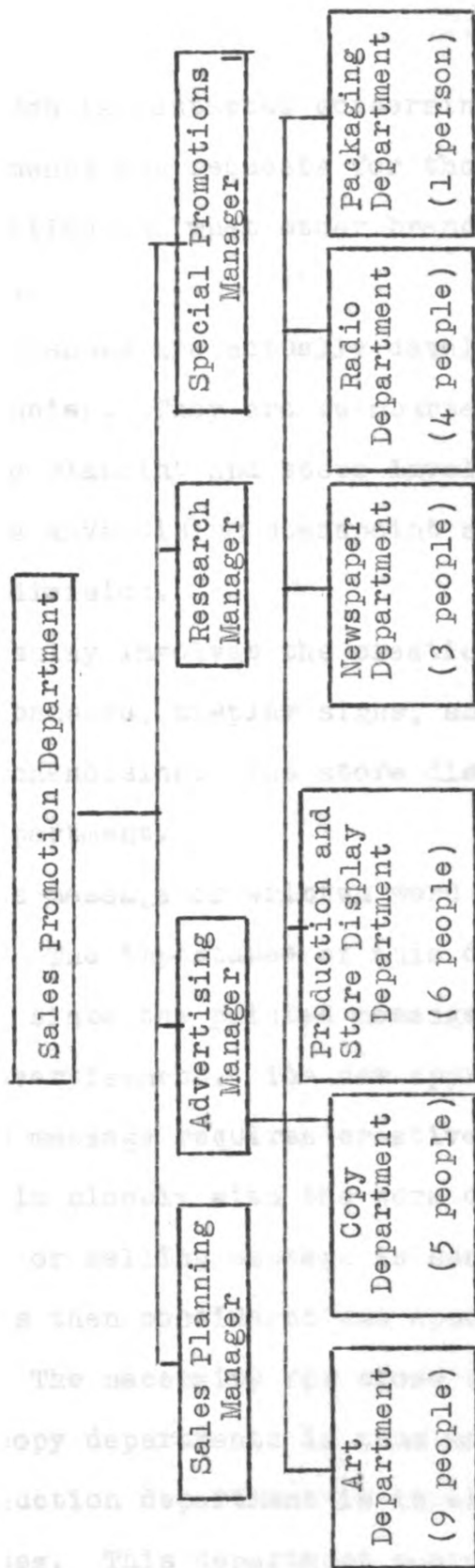
The entire advertising department consists of six sections and 28 employees. These employees are responsible to the advertising manager who reports to the vice president in charge of sales promotion. A brief description of the duties of these various departments will serve to explain more fully the role which this advertising department plays in the overall promotion of the company.

The packaging department is the smallest of the six departments. The responsibilities here are in the development of labels to be used on manufactured products of this food chain. These labels are designed and produced in this department.

⁵Thomas Panos, Jr. A Study of the Construction of Newspaper Advertisements Within Retail Food Chains. A Thesis: Michigan State College. 1952. passim.

CHART 4

ORGANIZATION OF THE KROGER COMPANY ADVERTISING DEPARTMENT
AT THE GENERAL OFFICE LEVEL*



*Source: Thomas Fanos, Jr. A Study Of The Construction Of Newspaper Advertisements Within Retail Food Chains. A Thesis: Michigan State College, 1952. p. 87.

Each branch is contacted concerning the particular newspaper requirements and requests for that area. Local conditions, competition and what other branches are doing is given consideration.

The radio shows are actually developed by outside advertising agencies. They are reimbursed the standard 15 percent fee. The planning and steps involved with the production, from the advertising standpoint are part of the duties of the radio division.

Store display involves the creation and production of store window banners, display signs, and interior decoration involving merchandising. The store display is part of the production department.

The sales message or written word is prepared by the copy section. The importance of this department can be readily recognized since the printed message is the selling message of the advertisement. The new approach to the presentation of sales message requires creativeness and this message must be tied in closely with the work of the art department.

The copy or selling message is sent to the art department. This is then considered and appropriate art is fitted to the copy. The necessity for close cooperation between the art and copy departments is thus made evident.

The production department is in charge of scheduling all work in process. This department coordinates all departments

and in this way becomes the general overseer of activity involved with the formation of the advertisement from the point of the creation of idea to the presentation of the finished work to the newspaper.

Special requests of the branches are also sent to the production section. Arrangements are made for the shipment of finished work, including special requests, to the various branches. The work of the copy and art sections are aided by files maintained by the production department. Proofs of all advertisements are maintained from four to five years back. The advertising book and display catalogue are prepared by the production staff. These two forms are the principal means of communication between the general office advertising and branch headquarters advertising. The advertising book will be discussed first.

A branch receives this book two weeks in advance of the period for which the advertisements are to be prepared. Material contained in this book is in the form of a full sized newspaper page. These pages within this book are intended to be used in the capacity of suggestions. A branch advertising manager is free to use or refrain from using this material as he chooses. However, plates of these pages are held in Cincinnati and sent to branches on request. The relationship of this book to branch advertising will be discussed later.

The free hand which branch advertising enjoys permits the service aspect of the advertising book to be treated as a service and not as a must. Completely independent layouts are created by some branches. Independent creation is encouraged on the part of the branch advertising manager. The general office submits its suggestion to the branch primarily in the effort to guide and to stimulate the branch advertising activity.

The entire program will be seriously handicapped if adequate point-of-sale preparation is not made available. The obtaining of this point-of-sale material is made possible through the use of the display catalogue. A copy is sent to each of the branches along with the advertising book.

Actual size representation would be too cumbersome to be practical; however, proportionality is maintained in the representation of window banners, signs to be hung on wires, shelf signs, display cards and all similar material contained in the display catalogue.

Order forms are enclosed upon which the number and types of signs are indicated by the branch along with what is desired to be printed on these signs or display pieces. In this way, the general office notifies the branches of the material which is available of this point-of-sale and display type. The branch can then select from this what items are desired

and the branch can control the message that is to appear on these signs. Furthermore, the catalogue is separated into four sections corresponding to the four weeks of the advertising period in which a special sale is featured each week.

General advertising policy is formulated by regular meetings of top level officers of the company. This meeting is composed of the president and vice-presidents on consultation with branch management, merchandising divisions, advertising manager, sales promotion manager, research staff, public relations department and specialists from these various departments. Monthly meetings are held by the vice-presidents for the purpose of advertising policy direction. Past performance and work is reviewed and future plans are discussed. The advertising promotions are planned three periods prior to the period in which the advertisement is to be published.

After one of the monthly meetings for planning advertising promotion, the production manager assembles the managers of the production, copy and art departments. The detail work behind the monthly program is then planned. The production department begins its job of overseeing and coordination of efforts of all units in order to create the finished product.

This discussion has been concerned with the general office level advertising. One branch of this company has been

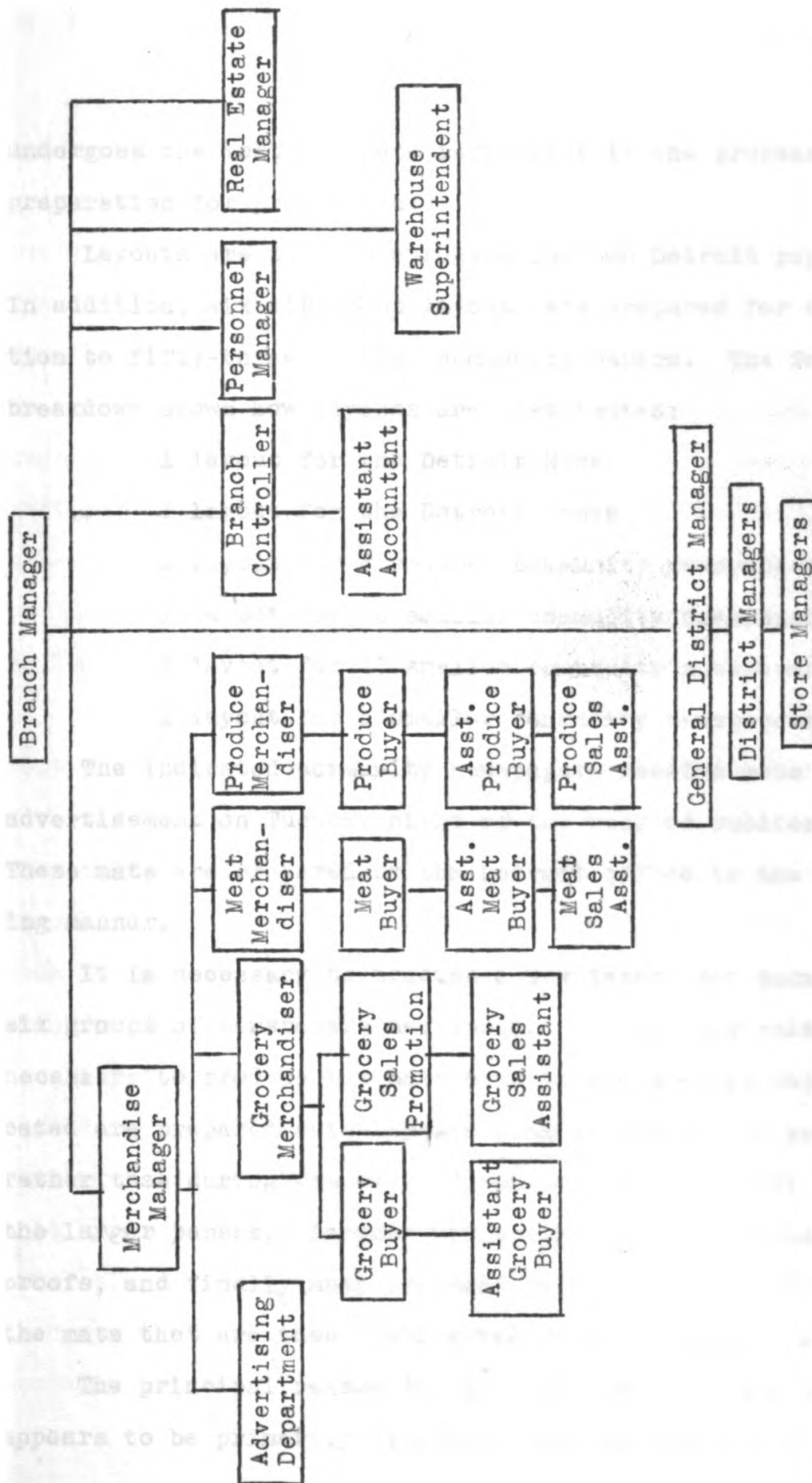
selected to present briefly the branch level advertising procedures.

The particular branch under discussion contains one hundred and fifty stores. These stores are principally located within the city of Detroit, but there is considerable representation in bordering cities and smaller towns and villages. Weekly sales of this branch average \$1,000,000. The advertising department for this branch consists of the advertising manager and his assistant.

Chart 5 shows that the advertising department is located under the merchandise manager. This department is then on the same level as the grocery, meat, and produce merchandisers. There is a weekly Monday meeting between the branch manager and the heads of these four mentioned departments. At this time, advertising is formulated for the entire four week period. Consideration is given to the planned advertisements in proportion to the importance which is imposed by the time factor. In the advertisement to appear four weeks hence, the general theme is decided upon. This theme can take the character of any motif desired. Attention should be called to the fact that the general office has sent the advertising book corresponding to this same period that is under discussion by the branch at this time. Layouts planned to appear three and two weeks hence are given further refining. The advertisement appearing in the present week quite naturally

CHART 5

A BRANCH ORGANIZATION OF THIS COMPANY*



*Source: Thomas Fanos, Jr. A Study of the Construction of Newspaper Advertisements Within Retail Food Chains. A Thesis. Michigan State College, 1952, p. 87.

undergoes the most complete refinement in the process of preparation for production.

Layouts are then constructed for two Detroit papers. In addition, six different layouts are prepared for distribution to fifty-three smaller community papers. The following breakdown shows how layouts are distributed:

- 1 layout for the Detroit News
- 1 layout for the Detroit Times
- 1 layout for 8 smaller community newspapers
- 1 layout for 18 smaller community newspapers
- 1 layout for 23 smaller community newspapers
- 1 layout for 4 smaller community newspapers

The indicated community newspapers receive mats of the advertisement on Tuesday night of the week of publication. These mats are prepared by the Detroit office in the following manner.

It is necessary to produce a new layout for each of the six groups of newspapers mentioned. The layouts which are necessary to produce the mats sent to the smaller papers indicated are prepared actually one week in advance of publication rather than during the week of publication as is the case of the larger papers. Layouts are prepared, corrections made on proofs, and finally mats are made by the printer. These are the mats that are then distributed to the community newspaper.

The principal reason for the six different preparations appears to be primarily dependent upon the six various sizes

called for. One Detroit newspaper receives a double truck or two-page advertisement while the other Detroit paper will print just a single page. A primary rule is that the smaller layouts receive a proportional reduction in items advertised. Thus a new layout is required rather than just a reduction in scale of the main or larger sized layout. Such a simple reduction in size might have the possibility of production cost reduction, but it is also quite likely that a considerable amount of the advertisement personality of this company would be sacrificed in the attempt to gain such a possible saving.

The personality of the company advertisement receives considerable respect from both the general office and branch personnel. Use is not made of any syndicated or prepared advertising. Local areas are recognized as requiring different advertising themes. Branch offices are practically autonomous units to help fulfill the requirement of individuality and advertising personality.

The company feels that advertising personality is important because of the similarity of supermarkets regardless of company. Advertising personality separates the stores of this company from competitive supermarkets even if these other markets are nearly identically similar in layout, construction and even location. Therefore, personality of the advertisement is given high priority within this company.

Personnel Policies

Group insurance plan. A Prudential Life Insurance Policy is made available at a charge of 55 cents for every four week period. This insures the owner of the policy for a "basic" \$1,000 plus an extra amount of insurance supplied by the company that may change from year to year. At present the extra amount is \$1,000 making the total coverage of the policy holder \$2,000.⁶

This policy can be converted to a regular life insurance policy if the employee should leave the Kroger Company. No medical examination is required to effect this conversion. A supplemental plan is provided for store managers and any other members of the period payroll.

After three months of employment, any Kroger employee in a management position with a minimum salary of \$2,000 becomes eligible for the supplemental group life insurance plan. This plan provides additional insurance at the annual rate of \$7.16 per \$1,000.⁷

All employees are eligible for health and accident insurance. The cost and benefits of this insurance depend on basic weekly earnings. Table XII shows the cost of this

⁶Kroger Group Insurance Plan. A Company Bulletin.

⁷Kroger Supplemental Group Life Insurance Plan. A Company Bulletin.

TABLE XII
KEMBA HEALTH AND ACCIDENT INSURANCE*

Weekly Earnings	Weekly Benefit	Premium Payment
24 - 28	\$ 15.00	.90
28 - 32	17.50	1.05
32 - 36	20.00	1.20
36 - 40	22.50	1.35
40 - 48	25.00	1.50
48 - 58	30.00	1.80
58 - 70	35.00	2.10
70 or above	40.00	2.40

*Source: Kroger Company Insurance Plan. A Company Bulletin.

insurance and what may be received in weekly benefits. The benefits of this insurance cover any non-occupational illness or accident if disability lasts longer than seven days. Occupational disabilities are covered by workmen's compensation or employers' liability insurance.

Credit union. The credit union exists to aid employees by lending them money for approved reasons at low interest rates. It also provides the method whereby a systematic savings plan can be set up. The payments to this plan will be deducted from the salary.⁸

Vacations. A one week vacation with pay is given every employee after a year's continuous service. Longer service entitles the employee to longer vacation time. Vacation schedules are planned early in the year. Management is instructed to do all it can to schedule vacations at the time the employee desires.⁹

Retirement program. The retirement program provides the employee with an income which is independent and in addition to Social Security benefits.¹⁰ All costs are paid by the

⁸Your Job at Kroger. A Company Bulletin.

⁹Ibid.

¹⁰Kroger Employees' Retirement Program. The Kroger Company. February 1951.

company. To calculate the annual retirement income, the employee multiplies $\frac{3}{4}$ of 1 percent of the first \$3,000 of his average annual income for the past ten years prior to retirement. The difference between the average annual income and \$3,000 is multiplied by $1\frac{1}{2}$ percent. These two figures are multiplied by the total number of years service, after 25 years of age, and the sum of these products gives the annual retirement income. If the average annual income does not exceed \$3,000, the average earnings will be multiplied by $\frac{3}{4}$ of 1 percent and this figure multiplied by the number of years to obtain the retirement income.

For clarification, the example below is given of the yearly retirement income a retired employee would have after 25 years of service with an average annual income of \$5,000:

$$\begin{array}{rcl}
 (.0075) (\$3,000) & = & \$22.50 \\
 (.015) (\$2,000) & = & \underline{\$30.00} \\
 & & \$52.50 \times 25 = \$1,312.50 \text{ yearly} \\
 & & \text{retirement}
 \end{array}$$

Profit sharing plan. This plan provides for a means whereby Kroger employees may save money regularly and also share in the company's profits. Two separate funds are set aside under this profit sharing plan. The savings of the employees are deposited in fund A, called the savings fund, and contributions from company profits are added to fund B,

the profit sharing fund (See Table XIII). The assets of both funds are placed in the custody of the Central Trust Company. After two years of continued service, every employee 21 years old or older may join the plan. As much as 5 percent of the regular weekly pay can be deposited.

Each year the company will contribute graduated amounts, depending upon the profit before Federal income taxes. Minimum earnings are set at \$15,000,000 before taxes in any one year before any contributions to the fund can be made.

The employee will receive a credit in the profit sharing fund in proportion to the contribution the employee makes during any given year. Upon withdrawal from the plan, total credits will be paid from the savings fund and earned credits will be paid from the profit sharing fund. Credits are determined on a percentage basis in proportion to years of membership. Less than three years earns no credits in the profit sharing fund. After three years, 15 percent of employees' credits will be received upon withdrawal, and after 20 years, 100 percent of the credits will be paid.

Management Training

Candidates for management training are taken from the ranks of the organization as well as recruited from the outside. Special consideration is given to schooling, work history, interests and activities of the prospective trainees. Supplementary personality tests which have been standardized

TABLE XIII
SCHEDULE OF COMPANY CONTRIBUTIONS TO FUND B*

Percent	Income Before Taxes in Millions
5	\$ 1 to 25
10	25 to 50
15	over 50

*Source: "Share in Your Companies Profits."
A Company Bulletin. Kroger Company.
July 1951.

on the present management personnel are given the candidate to aid in the personal analysis and evaluation.¹¹

Store experience is considered as basic training for any career in the food merchandising field. With this in mind, Kroger trainees are placed in stores to lay the groundwork for their future careers. The actual time to be spent in the stores is variable, depending upon the candidate. The general plan calls for actual store experience in produce, grocery and meat merchandising.

An additional special training program for store management is maintained which has the objective of qualifying special trainees to become store managers within forty weeks. Classrooms located at the various branch offices and at the home office are used to coordinate classroom with "in store" training. Training classes in checker, produce, meat and dairy are attended immediately preceding assignment to work in these departments. The trainee is permitted to review his training with the branch manager and personnel manager after each phase of the training is completed.

Chart 6 shows an example of a special job sheet used to guide the progress of the trainee in each phase of his training. These sheets also provide an opportunity for the training personnel to grade the trainee on the work performed.

¹¹"A Career For College Men." A Company Bulletin. The Kroger Company.

CHART 6

SPECIAL TRAINING PROGRAM
FOR STORE MANAGEMENT*
Checking (3 weeks)

Name of trainee _____

Check as Completed

- () 1. Attend three-day check training session
- () 2. Have trainee read and initial all store mail
- () 3. Instruct and have trainee sack at busy check stand. (Control wrapping supply expense)
- () 4. Instruct and have trainee become familiar with prices of merchandise that is not price marked
- () 5. Instruct and have trainee maintain check stand in proper condition.
 - () a. Change tapes on cash registers
 - () b. Keep sack rack filled
 - () c. Stock small item merchandise
 - () d. Keep baskarts ready for incoming customers
 - () e. Maintain clean and neat checking area
- () 6. Instruct and have trainee handle
 - () a. Tax collections
 - () b. Paid outs
 - () c. Refunds and overrings
 - () d. Proper change in register
 - () e. Relief orders and merchandise coupons
 - () f. Check cashing
 - () g. Authorized charge accounts

CHART 6 (Continued)

- () 7. Instruct and have trainee balance his register
- () 8. Trainee to perform all operations in checkout stand pertaining to accurately, friendly and efficiently checking out Mrs. Smith's order
- () I have instructed the trainee on these jobs, and my rating of his performance is:

() Excellent Remarks: _____

() Satisfactory _____

() Fair _____

() Poor _____

Date _____

Store stamp

Store Manager

Approved: _____
District Manager

*Source: Kroger Company. Mimeographed Information.

A summary of the general progress of the trainee is presented in Table XIV.

At the completion of this training, candidates have been exposed to the complexities of managing a modern Kroger store. When the store training program is through, the candidate can go into the merchandising, specialized service or the manufacturing divisions of the organization. Those selecting merchandising return to the stores. Specialized service includes such jobs as warehousing, accounting, advertising and personnel. Kroger also maintains 21 manufacturing units. Products manufactured in these plants under the Kroger label include candy, preserves, desserts, peanuts and peanut butter, spice, salad dressing, olive packing, coffee roasting, smoked meats, bread and cake baking, cracker and cookie baking and dairy operations including an evaporated milk plant.

Quality Control

The Kroger Food Foundation is an organization located in Cincinnati, Ohio. The purpose of this organization is to coordinate scientific findings and practical food preparation in order to take the guess work out of daily food buying and use.¹² The efforts of the food foundation have resulted in the development of 84 Kroger products.

The food foundation staff carries on constant testing

¹²"Twenty Five Food Experts Come To Your House." A Company Bulletin. The Kroger Company.

TABLE XIV
GENERAL OUTLINE OF PROGRESS*

Phase	Time in Weeks
Utility Clerk	3
Checking	3
Grocery Department	6
Produce Department	6
Meat Department	6
Head Grocery Clerk	12
Accounting Department	1
Warehouse	2
Key Personnel Contacts	1

*Source: Kroger Company. Mimeographed Information.

for quality control of all Kroger labelled products. Fruits and vegetables are inspected as they are packed at the can-
nery. Samples are taken to Cincinnati for quality testing. The products must be passed at this time before a single can is shipped to any Kroger warehouse. Samples of every lot arriving at Kroger warehouses are again tested by these men. An example of these tests would be the flotation test for peas and vitamin analysis by use of the Fluorometer and Spectrophotometer.

Public Relations

An example of public relations procedure is shown by the program in which this company participated in conjunction with the General Federation of Women's Clubs. The two organizations agreed to go together in sponsoring a community improvement program. To this end, the food company pledged \$60,000 as prize money. Club women in all 48 states, Alaska and the District of Columbia started looking around for things that needed doing in their communities. The year long program was announced in January of 1949 and was considered highly successful in stimulating ailing communities into self help.¹³

The scholarship program of this company provides 86 college scholarships for freshman students in agriculture and

¹³"Build Better Communities." A Company Bulletin. The Kroger Company.

home economics. The program is conducted in cooperation with land-grant colleges in 17 middle-western and southern states in which the company operates. Each scholarship is worth \$200.¹⁴

Architecture or building policies reflect public relations of this chain. Formerly noted for similarity of store design, consideration is now given to the store design in relation to other buildings in the business district. Thus, the store is facilitated in taking its place as a store of that given community and not simply the product of a blueprint created many miles away.

A glance at the organization Chart 1 shown on page 41 will show that one of the four vice presidents of the company is in charge of law, public relations and labor relations. This serves to indicate the high regard which this company has for public relations. Further inspection of this chart will show the various departments under this vice presidential category.

The food foundation was briefly discussed previously under the heading of quality control. This foundation also plays an important role in the field of public relations through the activities of the home economist's staff. The home economist in charge serves in the capacity of hostess to women's groups touring the food foundation. She has further

¹⁴"1951 Scholarship Plan." A Company Bulletin. The Kroger Company.

contact with the public through lectures given at high schools and colleges and before women's clubs. Testing kitchens are maintained for the testing of privately labelled products under practical conditions and for the testing of old recipes and the development of new. New recipes are printed in booklets and distributed from the food foundation offices. Other recipes appear on company labelled products. These recipe pamphlets are designed to aid the consumer in purchasing as well as preparing, and to tell the public of the objectives of the company.

The problem concerning public relations is approached in a general way with two considerations in mind. First, the company considers the community and what public relations activities will be needed concerning the community. Secondly, thought is directed toward the employee of the company and what must be considered concerning public relations with the employee in mind.

Under the first category mentioned above would come the charitable and welfare agency donations. Thus, every store contributes toward these agencies which are organized in the community in which the store is located. Special consideration is also given to the support of youth groups, especially those rural in nature, such as 4-H and Future Farmers clubs. Along this same line would come the college scholarships given to agriculture and home economic students, and cooperation

with groups such as women's clubs. Aid is also given to the alleviation of any local agricultural marketing problems whenever such local problems arise.

Under the second division which concerns the employee, there is the overall theme of indicating to the employee the responsibilities of good citizenship on the local community level. Public participation is particularly important so the employee is encouraged to become a part of community Chambers of Commerce, and philanthropic business groups. Similar attention is given to membership on church boards and school boards. The employee is given much encouragement along this line through the medium of pamphlets which are distributed to him.

Public relations is the subject which deals with the opinions of people. The product of this activity might be more easily visualized by considering the intangible business assets classified as goodwill. Since business goodwill is made of the opinions of people, particular significance is focused upon these opinions. It soon becomes evident that actually it is difficult to separate such a thing as public relations into a given section of the business. Rather, it is something which is built from within that exists to assert an influence upon company policy in such a manner that the company conducts itself in a socially minded manner. The principal divisions of society which must be considered in

this work consist of the company employees, stockholders, customers and of the community in general.

It can also be noticed that a public relations program actually has great interest in other phases of the business organization such as personnel relations. However, the essence of the program exists to explain to the public the business which is involved. Thus, the public comes to know the policies and methods of the business; the philosophy behind this particular business; its products and its people; and gains an appreciation of the contribution which the company is making to our society.

Due to the fact that public relations have as an inherent feature the close integration within the framework of the business, it is difficult to single out existing activities and label them as public relations techniques. Much can be learned about public relations in food chains by reflecting upon the public opinion which existed concerning these chains a few years ago. Compare the condemnation which they received at that time with their social acceptance at the present time. The difference can be largely attributed to the activities of public relations.

Merchandising Program

The fact that the Kroger Company is a selling organization places increased emphasis upon merchandising. All service personnel and every operation of the company is focused ultimately toward aiding the selling effort.

The organization charts show a vice president in charge of merchandising at the general office headquarters. The branch level also indicates the various merchandising divisions. Here, it was mentioned that in the place of the merchandising manager the branch manager often acted in this capacity. An inspection of these charts also indicates the relationship viewed by this organization between buying and selling. At the branch level, each buying office, such as grocery, produce and meat, contains its buyers and its merchandise manager. In some cases, sales assistants will be employed to assist the merchandise manager in his work of planning and coordinating buying with selling. Such an organization as this presents an idea of the amount of effort expended to produce successful merchandising.

The meetings at the general office and the branch office level for the purpose of formulating new merchandising policies and controlling the present merchandising program have been discussed. From this, the emphasis upon coordination of all departments which have a concern in the merchandising policies can be seen. In this manner, a working theme for a weekly promotion is determined. Each specialist is given the opportunity to add to or correct this theme as he sees fit. Each person's responsibility toward reaching the merchandising goal is made clear.

The information from the merchandise meetings is then channelled out to the stores by means of managers, district managers, general district managers, various surveys and printed information from the branch office. Constant record is maintained of sales and profit, expense, tonnage, customer count, and other records deemed necessary to control the merchandising program.

Sales plan formulation, carry-through and tabulation is somewhat of a more direct aspect of a merchandising program. However, every phase of this business is a part of the merchandising program. This entire account of a corporate chain has emphasized those primary fields of operation within that chain which are directly connected with merchandising.

In this chapter, a discussion has been presented of a large corporate food chain enterprise. It was seen that this business had a humble beginning. Now, the company is among the very largest. An attempt was made to present some of the important aspects of the functioning business. This case study indicates some of the operations performed when retailing, wholesaling and in some cases, producing functions are all contained within one business.

CHAPTER III

RETAILER-OWNED COOPERATIVE

Founding

The business chosen to represent the retailer-owned cooperative type is located in Portland, Oregon, one of the larger cities in the Pacific Northwest. The population of this city is approximately 375,000 people. Background information on the cooperative will be presented first. It is to aid the reader in familiarizing himself with this type of distributing unit.

Previous to the founding in 1915, a few retailers in Portland had been buying a limited number of items cooperatively. Storage of these items created a problem which resulted in the building of a separate warehouse. Thus, the particular cooperative under discussion was begun.

The methods practiced by the existing grocery wholesalers in the area provided the incentive for these initial cooperative purchases. Exercising near monopolistic control over the retailers, wholesalers' high markups and price differentials forced retailers to buy at unreasonably high prices.¹ The high prices were combined with an attitude of

¹H. L. Sorenson. "The United Grocers Story." A Company Bulletin. December 1951.

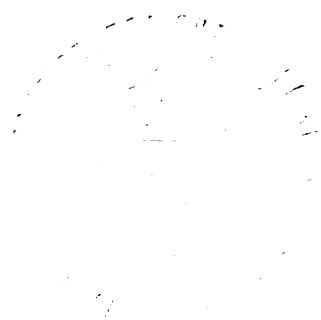
indifference on the wholesalers' behalf concerning the general welfare of the retailer. This organization of cooperative buying was begun before corporate chain store competition became a factor.

The cooperative idea proved its fundamental acceptance by successfully breaking into the field of grocery distribution in this local market and progressing therein. Other wholesalers became interested in the general plan. In many cases of private ownership, the voluntary chain organization was developed.

The voluntary chain wholesaler differs from the retailer-owned cooperative plan in that the retailer is not required to purchase stock in the wholesale concern nor does the retailer exercise any direct control over the operations of the wholesale phase. Therefore, the wholesaler in a voluntary chain plays more the role of a sponsor. Thus, it can be seen that the two plans are particularly divergent in organizational structure, but each has the same common goal - to increase efficiency.

This new idea surrounding the cooperative movement had many opponents. It was dubbed socialistic and doomed to failure. Cooperation in business as conceived by the Rochdale weaver group did have a political goal.² This political

²Joseph Reeves. A Century of Rochdale Co-operation 1844-1944. London: Lawrence and Wishart, 1944. *passim*



goal was born of economic iniquity of such a degree as to impel the Rochdale founders to dream of their plans being sometime universal over the nation as opposed to capitalism.³

Socialistic accusation was one of the fundamental charges made against the newly formed wholesaling cooperative. The question, as presented, was not sound. Such an organization was formed for business purposes only. History indicates that there were no political designs in the minds of this group of founders. The oldest retail-owned wholesale house in America was established more than 50 years ago.⁴ The fact that a retailer-owned cooperative has existed under the scrutiny of competitors and the Federal Government for such a length of time indicates that the charge of un-American ideological motivation has no bearing upon the cooperative wholesaler.

A better grasp of the feelings toward this new business combination can be had by reviewing the newspaper and periodical stories concerned at the time. Direct quotations from major parts of several of these articles are thus presented. The following article appeared in the November 11, 1915, edition of the Portland Oregonian newspaper:

³Some sources do not agree that the "Rochdale Pioneer" had any political ambitions.

⁴Donald P. Loyd. "Competitive Equality and Tomorrow's Problems." The Cooperative Merchandiser. 17:9. p. 13. September 1952.

Grocers unite to combat trust. With a representative membership of 60 dealers already signed and 100 expected ultimately, the _____, Inc. of Oregon, organized two months ago and incorporated yesterday, are prepared to launch formally a fight against so-called grocers' jobbing trust in Portland The object of the organization is to concentrate the buying power and further the mutual benefit and protection of its members.

The following was taken from an article appearing in the November issue, 1915, of the Oregon Retailers Journal:

A few, perhaps 50 grocers of Portland have held various meetings for the avowed purpose of discussing ways and means of instituting a Buyers Exchange or system of Pool Buying in Portland The buyers Exchange imposes upon its members the expense, service and the necessity for capital today furnished by the jobber The Oregon Retailer Journal can not believe that there is a more economical way of distributing merchandise in Portland or it would have already been employed by the wholesalers

Following is an excerpt from an article appearing in the November, 1915, edition of the Oregon Merchants Magazine.

The story reads in part:

Portland has now perfected plans for a big co-operative buying syndicate There are many ways of helping each other in an organization of this character and especially it is pointed out that each member by paying a small sum may have page newspaper advertising. . . .

These excerpts from articles present some indication of the feeling toward the new cooperative and reasons for its inception. This particular organization, which had its founding at the time these articles were written, now serves 225 retail outlets.

Divisional Organization

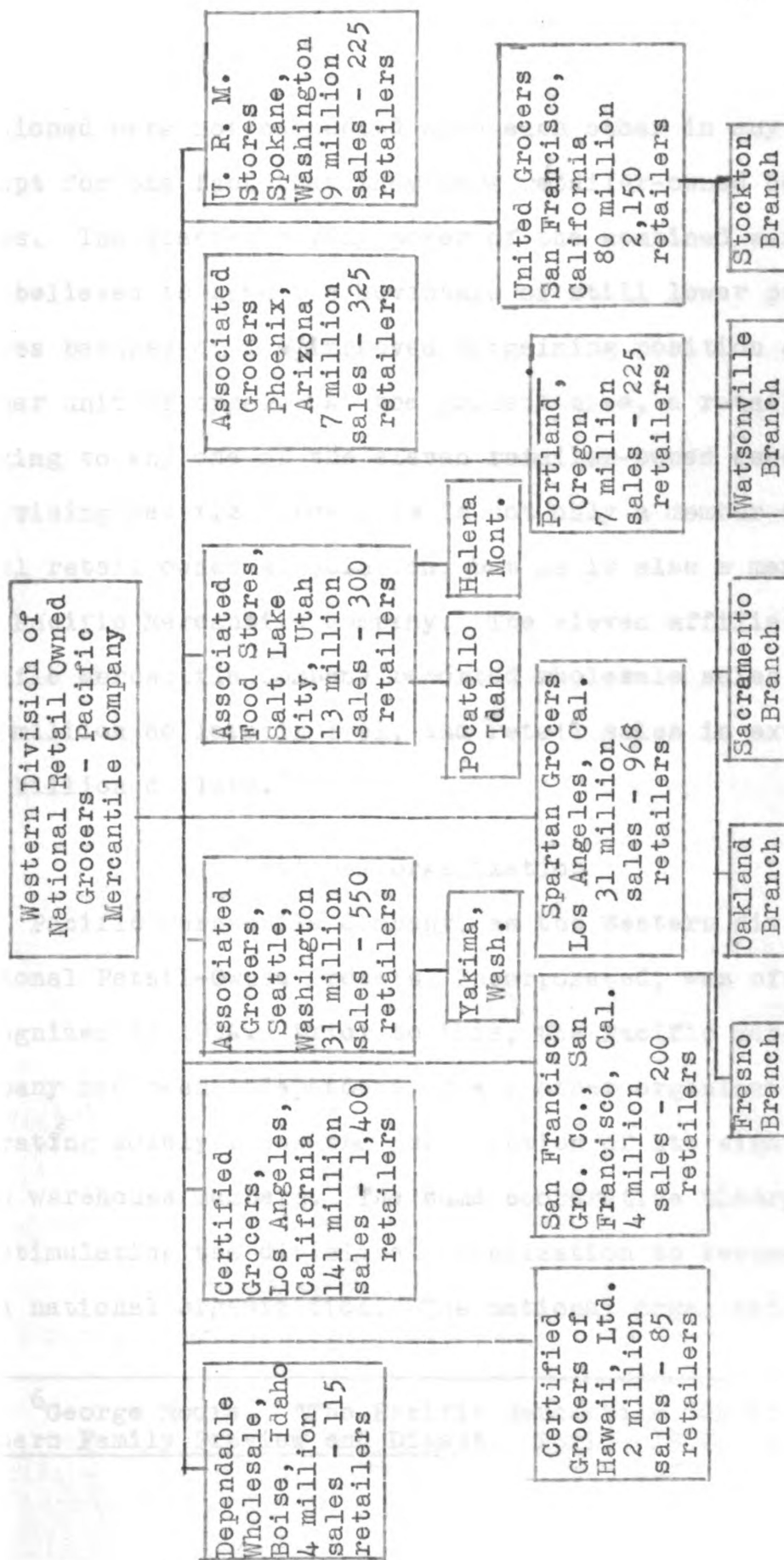
The basic cooperative formula, as presented by the organization under discussion, was expanded upon to form a divisional organization. This divisional organization goes by the name of the Pacific Mercantile Company of San Francisco. The formation of the Pacific Mercantile Company was to come after the establishment of the Portland cooperative and several others located in the Pacific Coast states. As the purpose of the retailers was to bind together, to combine purchasing power and to enjoy other advantages of cooperation, so was the purpose in the banding together of the founders of the Pacific Mercantile Company.

There are now eleven retail-owned wholesale warehouses comprising the Pacific Mercantile Company as shown in Chart 7. Representatives of the Spartan Grocers in Los Angeles and United Grocers, Ltd. of San Francisco along with the San Francisco Grocery Company met in San Francisco in 1924. The purpose of the meeting was to compare efforts of the United Grocers, Ltd. organization in hopes that helpful information could be taken back to the other groups. As a result of these sessions, it was decided by the representatives of the three groups that it would be advantageous for them to combine their purchases.⁵ Prior to this, the organizations

⁵H. L. Sorenson, op. cit.

CHART 7

ORGANIZATION OF PACIFIC MERCANTILE COMPANY*



*Source: Information obtained during personal interview with the manager of the Portland Cooperative.

mentioned were not connected with each other in any manner except for the fact that they were retailer-owned cooperatives. The greater buying power of the combined warehouses was believed to have the advantage of still lower purchase prices because of the improved bargaining position and the larger unit of order. At the present time, a retailer belonging to any one of the eleven retailer-owned associations comprising Pacific Mercantile is not only a member of his local retail owned association, but he is also a member of the Pacific Mercantile Company. The eleven affiliates of Pacific Mercantile Company reported wholesale sales volume of 329 million dollars in 1951, and retail sales in excess of two billion dollars.⁶

National Organization

Pacific Mercantile Company, as the Western division of National Retail-Owned Grocers, Incorporated, was officially recognized in 1934. Prior to this, the Pacific Mercantile Company had been independent of any other organization and operating solely under the jurisdiction of its eight cooperative warehouse members. The same cooperative theory prevailed in stimulating the divisional organization to become a part of a national organization. The national organization does

⁶George Moore. "The Pacific Mercantile Company." Western Family Preview and Digest. April, 1952. p. 5.

not play an important role in merchandise purchasing at the present time.

Originally, National Retail-Owned Grocers, Inc., referred to as N. R. O. G., performed most of the duties that are now carried on by Pacific Mercantile Company and the other two regional corporations, one located in Chicago and the other in New York City. The most important function of the national organization was the buying and selling of merchandise. About four years ago, this method of operation was discontinued and the actual buying and selling of merchandise is handled by the three separate regional corporations. However, the national office does maintain a trade publication, a complete insurance program, a complete trade association and also performs a certain amount of public relations work which is for the benefit of the entire retail membership as well as the distributing units.⁷

Pacific Mercantile Company represents the regional division in which the particular retailer cooperative under discussion is located. Several merchandise labels are owned by N. R. O. G. Such labels, in effect, are controlled by Pacific Mercantile Company. Controlled labels are treated as private labels in that goods under this label do not appear in any but member stores. Usually 100 percent of the purchases of

⁷This trade publication is the Cooperative Merchandiser, published every month by N. R. O. G. Editorial offices, 309 W. Jackson Blvd., Chicago, Ill.

private label merchandise made by the retailer-owned cooperative members are purchased through Pacific Mercantile Company. These purchases of private label merchandise consist almost entirely of canned fruits and vegetables. Shortening, margarine and a limited number of other items are also available under the private label.

The cost of belonging to N. R. O. G. and Pacific Mercantile Company is based upon an assessment arrangement. The total net cost of operating the organization is assessed against its members on a basis of volume done through the various wholesale houses.⁸ This is the typical cooperative procedure for pro-rating expenses and allotting rebates.

Table XV shows the growth of Pacific Mercantile Company since its inception in 1935. Not only have total sales risen, but sales per store have also shown a marked increase, indicating the trend toward a membership composed of larger individual retail units. The rapid growth is also indicated through the increase in total sales volume and an attendant increase per unit. Such a rapid growth rate indicates the acceptability of this cooperative method as applied to food distribution. It must be recognized that there are limitations upon the inferences to be gained from the growth rate as presented here. However, such expansion can be used as an

⁸Based on written communication with general manager of this cooperative.

TABLE XV
GROWTH OF PACIFIC MERCANTILE COMPANY*

Year	Sales Volume	Membership	Sales per Store
1935	\$ 30,000,000	2,350	\$ 13,000
1950	291,000,000	6,375	45,600
1951	329,000,000	6,543	50,300

*Source: Western Family Preview and Digest. April, 1952. p. 16.

indication of the acceptability of the services offered by Pacific Mercantile Company.

Warehouse Ownership

The warehouse is owned by the retail members as the name, retailer-owned wholesaling cooperative, implies. All cooperatives are similarly financed with only minor differences occurring. A person desiring membership applies and his intentions are published in the weekly bulletin which is sent to the various members of the cooperative. In this manner, all members are informed of the application for membership. The admission or rejection of the application is decided at the next board of directors meeting. Any member is permitted to express his views concerning the candidate at this meeting. The directors can then either reject or accept the application. Thus far, all applicants have been accepted. This is likely due to the advance screening of the candidate before application is even filed. This screening is an informal and variable process.

A new member makes an initial purchase of \$1,000.00 of stock. This stock must be transferred before any merchandise is purchased. A second \$1,000.00 in stock is contracted for and is purchased through a time payment plan. Usually this plan calls for the placing of the member's rebates toward the retirement of this second \$1,000.00 stock purchase contract. Of course, the stock can be purchased with cash if the member

so desires. However, the member is required to have on deposit within 60 days an amount equalling the estimated purchases which he would normally make over a period of two weeks.

Credit Policy

All retailers' warehouse accounts are required to be paid within seven days. Each Friday the books are closed and statements are mailed to members. Payments must be mailed by noon on the following Monday or a 1 percent penalty is charged. The penalty is re-assessed each week the bill is overdue. The policy of charging a penalty is strictly adhered to. A collection policy of this type is designed to prevent one person in the group from taking advantage of another member's capital provided by prompt payment. Such strict adherence thus acts to benefit the entire group.

Board of Directors

The board of directors consists of seven active retail members. Each one is elected for a three-year term. One year must elapse between the termination of a term and the re-election of a given member. The terms are on a rotating basis so that new members are brought into the group in a continuous process. Members are elected at an annual stockholders' meeting. The general manager of the warehouse acts as the secretary-manager of the board of directors.

The general manager is hired on a yearly basis. This person is permanently associated with the board of directors in the capacity of secretary-manager. All major issues, such as building policies, must be passed on by a two-thirds vote of the members.

Warehouse Organization

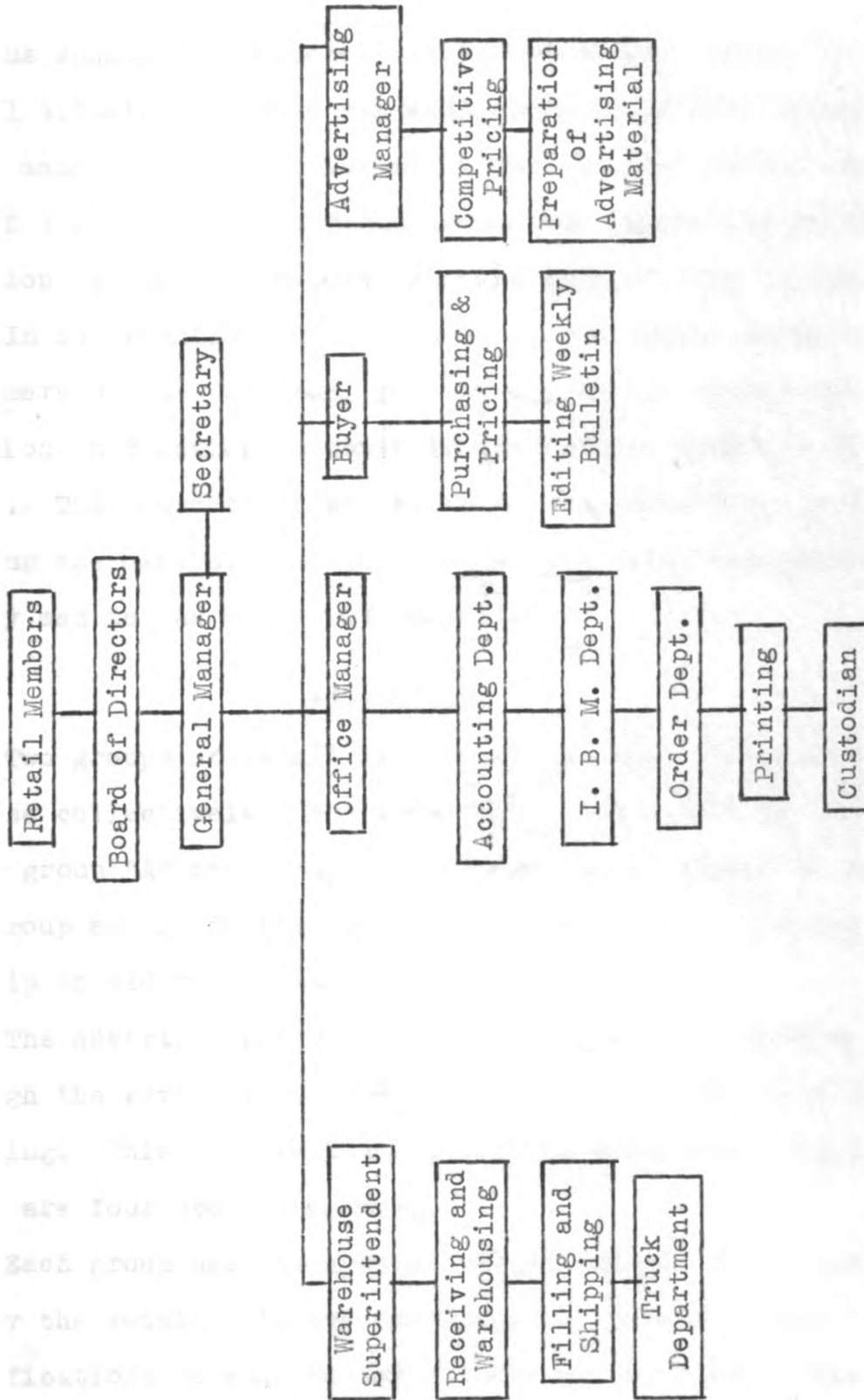
An average of forty people are employed in the warehouse and twenty in the office, all of whom are unionized. A union contract contains the provisions for hours, wages, vacations and hospitalization benefits and is used as the basis for all personnel relations. The following organizational chart, Chart 8, indicates the various departments and their responsibilities.

The great emphasis which is placed on low cost operation creates much interest concerning the employment policy of co-operatives. In order to produce savings in operation of the warehouse, constant attention must be placed on expense incurring items such as operational methods, services, and personnel. This constant surveillance has a tendency to improve the efficiency of these particular items.

Considering warehouse personnel, the greater efficiency objective is usually attained through employing fewer more highly paid employees than more employees at a lower rate. An attempt is, therefore, made to attract highly efficient labor. The likelihood for the greatest operating efficiency

CHART 8

ORGANIZATION CHART OF A RETAILER-OWNED COOPERATIVE*



*Source: Interview with General Manager.

is thus enhanced. Responsibility for the attainment of personnel efficiency rests primarily upon the general manager. Since many responsibilities are placed on the general manager of a retailer-owned cooperative, the importance of this position within the cooperative framework must be recognized.

In an organization of this type, the retail members, or customers of the business, are the owners and occupy the top position in relation to other departments as shown in the chart. The board of directors is the functional group representing the owners. The general manager holds the position of key man in the warehouse operation.

Advertising

Two groups of retail members within this cooperative advertise collectively. For simplicity, they shall be referred to as group "A" and group "B". There are 21 stores in the "A" group and 16 in the "B" group as compared to a total membership of 220 retail stores.

The advertising for each of these groups is handled through the advertising department located in the warehouse building. This is a self sustaining department in which there are four people employed.

Each group has its special qualifications which must be met by the retailer before admission is allowed. These qualifications depend primarily upon the particular type of store operation. When once accepted, the retailer must

continue to meet these standards of operation. Any member may, by conforming to certain standards, become a member of either of the two advertising groups.

The "A" group is made up of stores which are designed to compete with self service, cash and carry competition. This is definitely a volume-minded group. The advertising of the "A" group is, therefore, distinct from the advertising of the "B" group. The "B" group stores are generally lower volume stores having credit and delivery services.

The organization of the actual newspaper advertisement occurs in this manner. Ten members from each group are chosen by the entire group to meet each week to choose the items to be advertised. The two groups function independently of each other. The items selected at this time will appear two weeks hence in the daily newspapers having state-wide circulation which are printed in the city of Portland. Each group meets again on the Monday previous to the Friday on which the layout is to appear in the newspaper. At this time, changes are made and the perishable items, such as meat and fresh vegetables are selected which will appear with the dry grocery items chosen the previous week. A bulletin is then sent to each member of the group to inform them of the perishable items to be featured and the price at which they will be advertised. After the first meeting, a bulletin is

also sent to inform the retailers of the dry grocery items being featured.

The main determining factor in selection is to choose timely items for advertising. Buyers are open for consultation by the men selecting the items. However, the buying and advertising departments, although communicating freely, are still quite independent of each other. The advertising committee is elected for one year. Ten people are elected and a minimum of five must be present before work on the advertising can begin. Any cooperative advertising rebates earned are collected by the wholesaler and distributed to the members of the advertising group.

One person is employed to check daily the prices of items in competitive retail outlets. One national chain and one local chain is considered as competition for this purpose. The person checking makes her intentions known to each individual store manager in whose store she is checking. In turn, she gives him prices being charged by retail outlets of the cooperative, if he so desires. This retail price information is used by the advertising manager and representatives of each of the advertising groups in aiding them in their selection of items. The information on competitive prices is printed in order book and returned to each member with the merchandise order. An assessment of \$5.00 per month per member is made for this service.

Buying

An estimated 90 percent of the salesmen who contact the buyer are brokers. The remainder of the goods are obtained through factory representatives and through the Pacific Mercantile Company. Purchasing through brokers is of the re-order routing type of buying. Now items are decided upon by the buyers themselves. There are three buyers in this particular organization including the general manager who handles a large part of the negotiated buying. Most other purchases are made in a routing fashion.

Two private labels are sold by this Portland cooperative. One procedure for obtaining private label merchandise operates in the following general manner. A packer is contacted and a price is agreed upon. The merchandise ordered is of quantity large enough to justify a price differential to the purchaser. The buyer then notifies headquarters of Pacific Mercantile Company informing them that such a purchase has been made. The labels for this merchandise are then forwarded to the canner by the Pacific Mercantile Company. When the pack is completed, it is stored in the warehouse of the particular cooperative buying the goods. Buying in this manner is not a principal method of obtaining merchandise for this organization. One private label is placed on standard grade and the other is on fancy grade merchandise. The great majority of the private label goods are ordered directly from

Pacific Mercantile Company. The remainder of the inventory is purchased almost entirely through local brokers and factory representatives.

A weekly bulletin edited by the buyers is sent to each member. The bulletin lists price changes as well as any personal advertising desired by member, such as "for sale" fixtures or other business needs. This bulletin is the informing medium through which every store is notified of price changes and it serves as a direct contact between warehouse management and retail owners.

Merchandise shipped or delivered directly to members is classified as "drop shipment" merchandise. The goods are billed to the cooperative organization. The cooperative, in turn, adds 1 percent to the order and collects from the retailer. The retailer is charged the same price for the goods as the warehouse is charged, except for the addition of approximately 1 percent.

The markup schedule, Table XVI, is presented to indicate the grouping of merchandise to correspond to specific percentages by which the cost is increased to arrive at the selling price. The ten different groupings indicate that pricing is carried out with a consideration in mind of the ability of various products to sustain unequal increases in the cost. The wholesale price to the retailer is important because of the extreme price consciousness of the consumer in purchasing food.

TABLE XVI
MARK-UP SCHEDULE *

Product	Price Increase
Cigarettes	1.00
Canned Milk	
Oil and shortening	
Sugar	1.01
Tobacco	
Coffee	1.00
Cleanser - soap	
Canned soup	
Franco American products	
Jello and pudding	
Tea	1.02
Cereals	
Baby food	
Flour and mixes	1.03
Peanut butter	
Margarine	1.045
Crackers	
Corn meal and hominy	
Dog and cat foods	
Dried fruits	
Macaroni products	1.05
Mayonnaise and dressing	
Canned meats	
Rice	
Syrups	
Canned vegetable juice	
Dried vegetables	
Salmon	1.03
Tuna	1.03
All others	1.03

*Source: Information gained during interview with
general manager.

The wholesaler must consider the factor of operational expenses. As in any business, these expenses must be met by income from sales. The customer of the cooperative is a part owner, yet there is nothing to prevent his purchasing from other wholesalers who could provide a more competitive price. Furthermore, the markup schedule indicates the possibility of some retail members actually receiving a disproportionate share in patronage dividends because the dividend rate is set at a fixed rate, while pricing is variable.

✓ Retailer Relations

One man is employed within this organization whose primary responsibility is the well being and satisfaction of the retail member. This position carries the title of contact man and creates the direct channel of contact between the retail member and the warehouse organization. The contact man has his office located in the general office of the warehouse and is responsible to the general manager.

The contact man is on call to go to the store of any member making this request. A regular schedule is also followed whereby stores are visited without special request from the owners. Suggestions are offered to retailers at the time of these calls. The wholesale-retail cooperative as discussed herein has no direct control over the operations of the retail members. This system is quite reversed from the voluntary and

corporate chain in which the retail unit control is a primary consideration. The supervisory status and limitations of the contact man are thereby confined to suggestions which are unenforceable.

Principally through the contact man this cooperative does attempt to impress retail members with the desirability of certain actions. Suggestions are offered to the retailer at the time of these calls. One of the common situations is a failure of the retailers to feature the two private labels through preferred shelf and display space. Failure to have adequate shelf price markers is another common example of a condition which the contact man attempts to remedy.

Shelf stripping and markers can be purchased through the warehouse. In a case where a store needs these items, the contact man will make the necessary measurements and take the order for the materials needed. The order will then be taken into the warehouse and the necessary materials sent as soon as practical. Common requests which retailers make of the contact man involve such things as store fixture purchasing, layout and departmentalization, self service meat installation and general remodeling problems. The contact man assists the retailer through personal aid and by contacting specialists concerning these various requests.

Another important function of the contact man is to supply the general manager of the warehouse with a knowledge of

the feeling or attitude of the retail members. After each call, he makes out a report including all happenings that occurred during the call. These reports are then turned over to the general manager. This makes it possible for the manager to be aware of the condition existing in several stores in a matter of minutes. This information would require many hours to obtain if the calls were made by the manager in person. Irregardless of the time consideration, such a system of examining the individual member units and learning the prevailing attitudes is regarded as superior to a system whereby the general manager would make these calls in person.

A visit by the contact man provides an excellent time for the retail member to unload his complaints concerning the operation of the warehousing phase. The contact man thereby plays an important part in member morale by encouraging these questions from the retailers. The thinking of management is that more information on problems actually gets into the hands of the manager through this report system carried on by the contact man than if the manager were to make these calls in person because of a natural reluctance on the behalf of a retail member to make his complaints directly to the person responsible.

The visit of the contact man is also used to discuss market conditions and other purchasing conditions which would be of interest to the retailer. The contact man makes every

attempt to gain the confidence of the retailer. Particular attention is made to the future plans as well as the present conditions and problems of the members.

Delivery

An order guide to be used in sending in the next order is sent to the retail member with each delivery. This order guide lists all supplies and merchandise available at the warehouse. It is used in conjunction with mechanical billing which makes the retailer's use of it imperative when reordering. The following information is supplied to the retailer by this order guide:

1. Description and code number of the merchandise.
2. Cost of merchandise f. o. b. warehouse.
3. Group two ceiling price.
4. Group four or suggested or competitive ceiling price.
5. Percentage of profit on the quoted price (point four).

A member who wishes to pick up his order at the warehouse is ordinarily required to have his order at the warehouse at least twenty-four hours in advance of the time desired for pickup. Members desiring to have their orders delivered by the cooperative's trucks will be given a definite schedule of delivery. To comply with this schedule, the retail member must have his order in the hands of the warehouse at the opening of business on the preceding day. Orders, for

example, scheduled for delivery on Wednesday must be at the warehouse by 8:00 A. M. on Tuesday.

Deliveries to members are charged for on a percentage basis ranging from 1 to 3 percent of the invoice depending upon the distance the retail member is located from the warehouse. This delivery charge is made monthly when merchandise is shipped in trucks belonging to the cooperative.

The schedule of delivery charges presented, Table XVII, provides information on cost of delivery service to the retail customer based upon the distance which the customer is located from the warehouse. This information does not tell what the function of transportation costs the wholesale phase of the organization. Although exact information has not been collected on the disbursement of the retail customers, or the volume of business according to the various divisions in the delivery charge schedule, it is quite probable that the majority of sales would be accounted for by customers within the seventy-five mile zone.

With this in mind, consideration is given to a recent national average for delivery expense. It was reported that for wholesalers in the sales category over \$6,000,000 the delivery expense averaged 1.526 percent. This figure was obtained by averaging the delivery expense of five firms.⁹

⁹John R. Bromell. "Survey of Wholesale Grocers Profit and Loss Figures." Wholesale Grocer News. 26:9 December, 1951. p. 17.

TABLE XVII
SCHEDULE OF DELIVERY CHARGES*

Percent of Invoice	Distance in Miles
1.0	first 50
1.5	50-75
2.0	75-125
3.0	beyond

*Source: Information obtained from personal interview with general manager.

Monthly Meetings

A meeting is held every month in which the entire membership is invited to attend. Prior to the member meeting, a board of directors meeting is held. The usual practice is for the board to meet from 6:00 to 8:00 P. M. and then the general meeting is convened.

The meeting is conducted by the president of the board of directors. Each meeting is variable in its organization, but the principal features are usually the report of the general manager and the ensuing question and answer period. It is the common practice to give a \$5.00 door prize at these meetings.

Dividends

The patronage dividend is one of the strong features of any cooperative enterprise. This dividend has never been less than 2 percent of purchases by members. These refunds, for the past few years, have been made in non-negotiable redeemable notes bearing interest at 4 percent yearly. The redemption of the notes is in the hands of the board of directors. These notes can be sold, however, and the owner realize a cash value thereby.

Some question is raised concerning the tax position of the retailer-owned cooperative. The present practice is for this organization to file an income tax report, but to pay no taxes because there is no profit. All income which would

appear to represent a profit in a private organization is treated as an overcharge and distributed among the members on a basis proportional to the purchases of the individual members. The markup on the goods taken by the warehouse organization is to provide income to pay for operational expenses.

If such a condition should come about whereby the overcharge of the warehouse would become taxable, a simple policy of eliminating this overcharge and a type of deficit operation could be practiced. Instead of the warehouse paying a dividend to the retail member at the end of the year, the member would be required to pay a certain amount to the warehouse to make up the deficit incurred through the operation of this function. There has been no need to utilize this system of operation thus far.

Office Management

Order receiving and billing procedures are under the direction of the office manager along with all accounting and record keeping duties. The tab file system is used in stock control and order picking. The standard record card and automatic accounting machines are used here as well as in the accounting department.

The financial statement information, Table XVIII, was obtained by interviewing the head accountant for this cooperative. At the time of the interview, the record keeping

system was undergoing a change. Therefore, the significance of the reported percentages is less than if they represented a longer period of time. These figures were not obtained from an examination of the financial reports, but rather in the course of the interview.

TABLE XVIII
FINANCIAL STATEMENT INFORMATION*

Cost of operation	3.2 percent
Sales	7.1 million**
Dividends	2.07 percent

*Source: Personal interview with the head accountant

**Estimated.

Further significance, however, is indicated by these figures when compared with other compiled information. The United States Census of Business for 1948 shows an average operating expense for general line grocery merchant wholesalers of 8.8 percent. This same expense category amounted to 11.3 percent in 1939.¹⁰

Operating expenses for voluntary group wholesalers averaged 8.3 percent for the United States total according to

¹⁰U. S. Census of Business. 1948. Vol. 4. Wholesale Trade. Table 1C. p. 105.

the 1948 survey.¹¹ The same group of statistics shows the average operating expense of retailer-cooperative grocery warehouses as 4.6 percent.¹²

Special Benefits

Members have the opportunity of purchasing a limited assortment of goods through the warehouse organization which are unrelated to food products. These goods are most represented by such items as food store equipment, automotive equipment and household appliances.

The warehouse arranges for group life, products liability, and workman's compensation insurance for the members. A new member is entitled to \$500.00 life insurance. From then on, the insurance is based on the individual's purchases. The purchases for the preceding year are used for the purpose of calculating the amount to which the retail member is eligible.

Products liability protects members against claims made which state that injury was incurred from food items purchased from any given member. This insurance costs each member \$8.00 per year.

Workman's compensation insurance is available on request. This provides the same protection afforded by the

¹¹Ibid., Table 8E. p. 8.45

¹²Ibid., Table 8F. p. 8.46

Oregon Industrial Accident law to both employers and employees. The payments for this insurance are based upon the individual employer's payroll. The charge is approximately 30 cents per \$100.00 payroll.

A new member is eligible for \$500.00 life insurance under the cooperative's group plan immediately upon the acceptance of his membership application. A report on each member's purchases is sent to the insurance department of the National Retail Owned Grocers Association once a year. Each member's coverage is based upon his purchases for the year, Table XIX, which are reported to the insurance office at this time. Therefore, insurance is calculated on the past year's purchases for each member. The maximum insurance, regardless of purchases, is \$5,000.00.

The life insurance premiums are paid through the cooperative. At the time disbursements covering patronage dividends are made, the insurance premiums which have accrued for each member are deducted from the patronage refund. The premium is approximately \$17.00 per \$1,000.00 of insurance at the present time.

The foregoing discussion presented the origin and, to some extent, the development of a retailer-owned cooperative. A division of the business was made indicating the extent of duties performed and the line of authority. Wholesale purchasing, delivery, retailer relations, and other practices

TABLE XIX
 SCHEDULE OF GROUP LIFE INSURANCE*
 PAYMENTS BASED ON PURCHASES

Volume of Annual Purchases	Amount of Insurance
Under \$ 9,000	\$ 500.00
9,000 to 12,000	750.00
12,000 to 15,000	1,000.00
15,000 to 18,000	1,250.00
18,000 to 21,000	1,500.00
21,000 to 24,000	1,750.00
24,000 to 27,000	2,000.00
27,000 to 30,000	2,250.00
30,000 to 33,000	2,500.00
33,000 to 36,000	2,750.00
36,000 to 39,000	3,000.00
39,000 to 42,000	3,250.00
42,000 to 44,000	3,500.00
45,000 to 48,000	3,750.00
48,000 to 51,000	4,000.00
51,000 to 54,000	4,250.00
54,000 to 57,000	4,500.00
57,000 to 60,000	4,750.00
60,000 and over	5,000.00

*Source: Taken from Member's Handbook, 1952. p. 18.

were discussed to provide greater familiarity with this functioning organization. It will be noticed that there was not any discussion of some areas such as personnel training and public relations. This is due to the fact that these specific departments were not found existing in a formal way within the framework of the business at the time the study was made.

CHAPTER IV

INDEPENDENT WHOLESALE SPONSORING A VOLUNTARY CHAIN

History

This business was actually founded before the Civil War. However, the owners who contributed the name by which the company is now recognized did not gain control until 1892. A program of expansion through purchases of existing businesses was pursued in the early 1900's. Besides the purchases of existing grocery wholesalers, two branch warehouses were established in the 1900 to 1930 period. These branches and acquisitions were all in the state of Michigan.

In 1938, a wholesaling business was purchased in Toledo, Ohio. Two more wholesale outlets were established in Ohio within the next eight years. At this time, the company operated a total of six modern, one floor and three multi-floor warehouses. In addition, 77 cash and carry branch warehouses supplemented the nine main warehouses mentioned.

These smaller, supplemental branch warehouses are a product of a wholesale cash and carry system inaugurated by this company in 1928. Such cash and carry outlets offered great convenience to retail merchants. The smaller retailer was the principal customer of these cash and carry units. The acceptance was immediate and growth steady to the present.

Trend in Growth¹

In terms of the percent of the total market, the peak period for sales was in the 1925-1926 period. The trend since this time has been toward a declining portion of the total market. The Toledo branch was discontinued in 1952. There are seven branches now in operation, including one institutional division. In addition, there are sixty to seventy cash and carry depots.

✓ Purchasing

A policy of decentralized buying is followed. Buyers in each branch are responsible for purchasing all merchandise needed. The buyer is responsible to the district manager for his buying activities. The district manager, in turn, is responsible for the overall warehouse operation. New items are purchased only after a consultation of buyers and the branch manager.

The emphasis is on private label goods. An estimated 350 items are packed under this private label. A type of negotiated buying is practiced for these goods; however, there is no warehousing by the company of large quantities in anticipation of demand.

A merchandising committee exists at the central office level. The contract for products of the private label are

¹This information taken from a company pamphlet.

made here. The various branches are then contacted by representatives of these authorized packers where the quantities of purchase are determined.

Some private brand items are ordered directly from the packer and others are purchased from brokers. Each shipment of private label is examined by cutting cans from this shipment. A practical test based upon the buyer's experience is applied to determine the acceptability of the products. This private label has been in existence for twenty-five to thirty years. Purchasing on a turnover basis is also practiced for all other merchandise.

Order Handling

Two principal methods of receiving orders from retailers are in use. These are the mail-in type order book which is utilized by mechanical billing and the salesman who calls and writes the retailer's order. Salesmen are employed in all branches except one. The selling emphasis is on private brands. Each retailer is called upon once a week.

In the one branch not employing salesmen, the retailer is expected to mail his own order to the company. This system is now being utilized on a trial basis. In this experimental area, supervisors are employed instead of salesmen. The ideal purpose of the supervisor is to give retail assistance. However, the main role he has played thus far is to make collections and pick up orders from retailers.

It is recognized by the company that warehousing and delivery costs are the key to successful grocery wholesaling. Before any work toward efficiency of operation can be effective, the warehouseman must have the assurance of larger orders from the retailers. Delivery expense reduction has been attacked in several ways.

Delivery trucks are owned by the company and operated by unionized drivers under the supervision of the warehouse superintendent. Policy concerning delivery is to deliver to each customer once a week. One of the techniques of delivery cost reduction is to operate trains and shuttle drivers. The train refers to the usual truck or truck and trailer arrangement with another trailer attached. The shuttle drivers are located at stations along the route. By this means, drivers are provided without the usual delay for rest. Such a system is used for orders in the vicinity of 315 miles round trip.

A delivery cost as a percentage of sales record is maintained. The costs are in categories referring to metropolitan service orders, long distance orders, and delivery to the cash and carry depots.² Delivery costs as a percent of sales is one method of efficiency determination. The greatest importance of such records lies in the field of comparison of

²These figures are treated as confidential company information.

past company performance rather than comparison to the industry. This is due to the fact that such a comparison fails to take into account differences in trade and territories served by different firms.³ Delivery cost is a direct cost and, thus its control within the company is of major consequence because of the importance of direct costs in distribution.

Organizational Chart

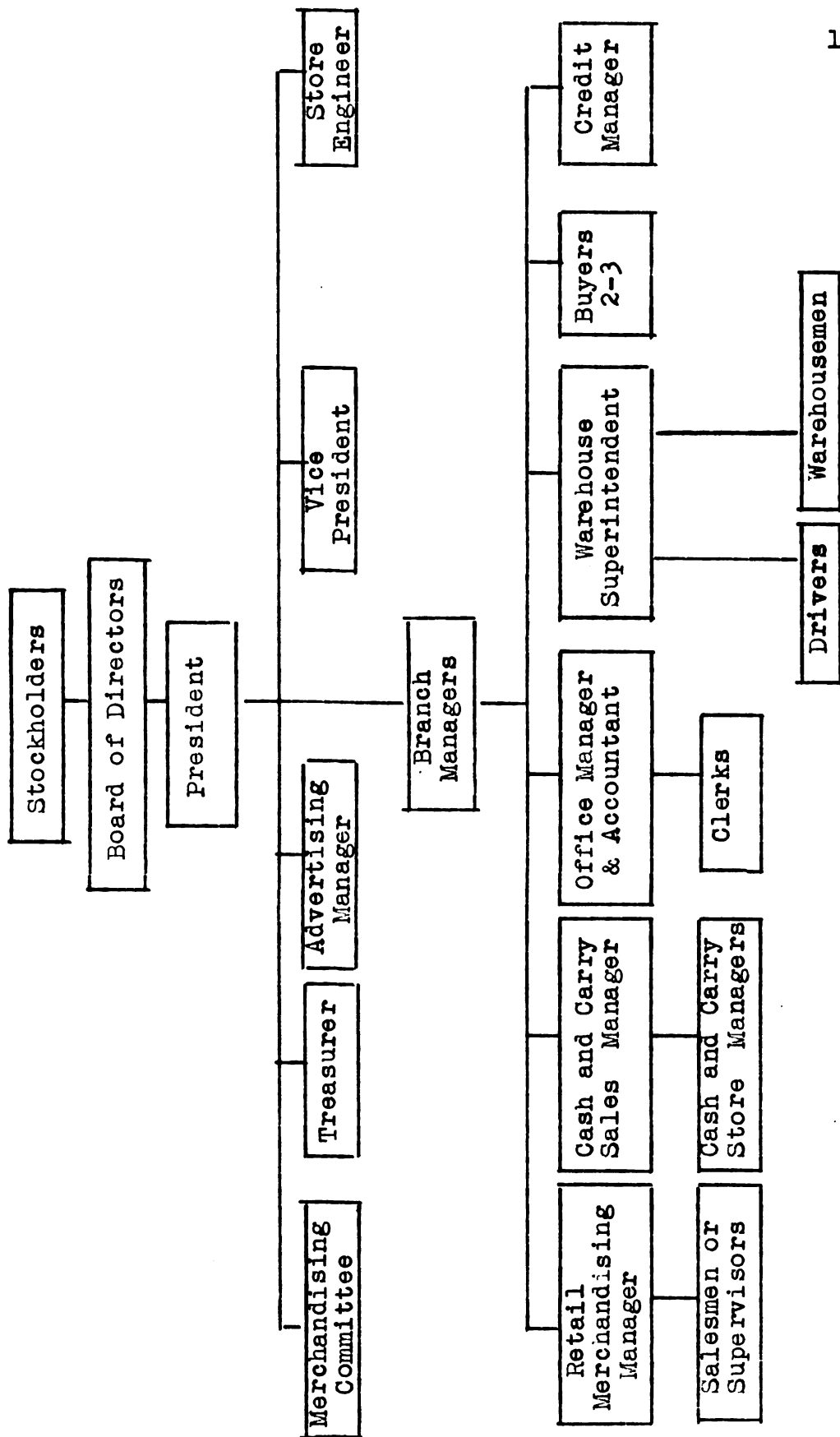
Chart 9 shows the organization of the company and the relationship of the branches to the central office. It will be noted that the branch appears autonomous and this is the actual condition. The central office plays an important part in overall company operation, but the various branch divisions are quite independent concerning their individual operations.

From the organizational chart it can be seen that the company is incorporated and under the direct control of the stockholders, board of directors and the president. Next in line are the various staff officers. The merchandising committee is concerned primarily with the purchase of private label merchandise. The advertising manager has the responsibility of planning advertising strategy for the private

³Methods of Handling and Delivering Orders Used By Some Leading Wholesale Grocers. United States Department of Agriculture. Market Research Report No. 13. May, 1952. Washington, D. C. p. 43.

CHART 9

ORGANIZATIONAL CHART OF AN INDEPENDENT WHOLESALER*



*Source: This information obtained by personal interview with an officer of this company.

label. Such promotional work is separate from the advertising and promotion at the retail store level. A store engineer represents another staff office which is unique enough to necessitate some clarification in this discussion.

It is generally conceded that the person in the store engineering capacity must be as much a retailer as an architect. He aids retailers who are remodeling, building new, or needing rearrangement in their present stores. The store engineer also assists in the solution of routine problems, such as supervisors might pass on to him. Expenses and charges for the services of the engineer are paid by the branch which sells to the retailer who received the assistance. Any equipment that is sold to the retailer by the engineer is increased 5 percent over the purchase price to the division. Profit resulting from such sale is applied by the division to the engineer's salary. All customers are provided this service whether they are members of a voluntary group or not. In this manner, the retailer can purchase required fixtures at a price slightly above the price to the wholesaler and technical assistance for no additional charge.

Next in line are the branch managers who are in charge of the various branches of the company. Organizational Chart, page 136 shows the various divisions at the branch level. As indicated, the merchandising manager has charge of the salesmen and works with the supervisors within branches where they

are employed.

Further duties of the merchandising manager include planning the weekly promotional program, recruiting new stores to the voluntary group, organizing retailer meetings, training supervisors, evaluating potential store managers, and working closely with all supervisors. His primary duty, however, is to see that the company is making it possible for the retailer to be competitive. The cash and carry sales manager is in charge of the cash and carry units supplied by the branch warehouse. Responsibilities of the other officers indicated on the chart are, by their titles, self explanatory.

At the present time, this company has no plans for expansion. In fact, the recent withdrawal from the Toledo branch indicates a possible trend toward more consolidation of outlets.

Pricing

The proper calculation of selling prices is one of the most important problems which the wholesale grocer has to solve. The brief discussion herein devoted to this subject is not meant to imply that the company concerned is unaware of the importance of pricing. Instead, much attention is devoted to the problem, some of the aspects of which are presented herein.

It is believed by the management of this company that the ideal situation would be to base the selling price on

the cost of merchandise or on a cost-plus system with cost considered as the billed price less a 2 percent cash discount. A difficulty arises in that this system would not allow competitive selling of turnover items. In the Detroit marketing area, the difference of items below cost is usually equal to the cash discount. Reference to Table LX indicates the pricing methods used on some groups of merchandise.

This practice allows the retailer to obtain these goods at a price nearer to the wholesale cost. This, in turn, makes it possible for the retailer to place competitive prices on these important high turnover items upon which price is an important consideration of the consumer.

Cost plus is generally preferred by retail customers in this area; however, this policy is less flexible from the wholesaler's standpoint. The general plan is to add a certain percent to each invoice although there are varying methods all termed cost plus. The objective of the plan is to provide an incentive for retailers to order in larger quantities. Thus, the all important reduction of direct wholesaler costs inherent in larger purchases by retailers could be realized. In the Detroit area, the lowest price basis which this company uses is 4.5 percent. This is for city orders of over \$1,000. The 4.5 percent is the increase applied to the base price set by the wholesaler. Thus, it will be seen that this wholesaler can operate near a gross profit of 4.5 percent

TABLE XX
PRICING METHOD FOR A LIMITED NUMBER
OF MERCHANDISE GROUPS*

Product Group	Pricing Method	Purchase Quantity
Soaps and shortening	Cost Less Cash Discount	Carload
Two national coffee brands	Less 3.5 percent of cost	Carload
Soups, cereals, sugar jello, flour items	Cost	-

*Source: Personal interview with a company officer.

plus the 1.5 percent cash discount or a total gross profit of 6 percent of cost.

Nationally branded items with a rapid turnover are sometimes sold near cost less other discounts as indicated in Table LX. It is estimated that these items average 25 percent of the retail order and that this, consequently, reduces the gross profit average about 1 percent. Some items which have been selected for advertising are sold regularly to retailers at cost with the amount purchased limited to the needs for that week.

Table LXI indicates the method of assigning delivery charges used by this company. Such charges are applicable to one division of the company.

Delivery charge is used as a tool to increase the size of the order. From this table, it can be seen that large order size is considered of such great importance by this company that a rebate is awarded and, in the case of country deliveries, no charge is made for the delivery of the largest orders.

At the present time, the company does not provide any financial aid to a retailer with the exception that the terms of sale are payment within one week. In exceptional cases, it is required that the order be paid for on delivery.

The pricing schedule shown in Table LXII indicates the method used to determine the retail purchase price using a

TABLE XXI
SCHEDULE OF DELIVERY CHARGES*

City		Country	
Total Selling Price	Delivery Charge	Total Selling Price	Delivery Charge
\$ 125	1.75%	\$ 200	1.75%
250	1.50	250	1.50
500	.50	600	.75
Over 500	No charge	1,200	.50
1,000 or over	Rebate .5	1,200 or over	0.0

*Source: Information obtained from questionnaire.

TABLE XXII
PRICING SCHEDULE*

A. Delivery Charge: (a fixed percent not shown)

Minimum Delivery Charge: \$2.50

B. Monthly "W" Service Charge:

Minimum "W" Service Charge: \$25.00 monthly -
payable in advance with balance above minimum
service charge payable at end of the month.

1st \$2,000.00

\$2,001.00 to \$3,000.00	@ --%	) Percent
\$3,001.00 to \$6,000.00	@ --%	) Increases
\$6,001.00 to \$8,000.00	@ --%	) Not
\$8,001.00 and over	@ --%	) Shown

C. "R" service charge of \$3.00 a week for group stores

*Source: Personal interview with a company officer.

cost plus method. There is first a minimum delivery charge. The monthly "W" service charge is the warehouse charge. The schedule of percent increases corresponding to various purchase volume ranges indicates the technique used to arrive at the wholesale price. As the volume of purchases increases, the percent charge decreases. However, it should be noted that the retailer must, in a sense, work his way through this schedule. The "R" charge is \$3.00 a week which is for group stores only.

The total charge based upon volume calculations and the corresponding percent is then paid at the end of the month.. The \$25.00 warehouse fee paid at the first of the month is deducted from this charge as described in the pricing schedule, Table XXII. Cost-plus methods vary. It is not intended that the method presented is representative. It is, however, one approach taken by this company to aid in proper pricing. A given warehouse of this company which uses any type of cost-plus plan does not also use other types of pricing methods.

Advertising Rebates

The advertising groups generally pay the entire cost of the advertising. This cost is divided equally among all group stores in the particular area. Advertising rebates are calculated at the warehouse level and returned to the retailer. Distribution of these rebates is made on an equal

basis to all. In the past, the rebates have paid for approximately 25 to 35 percent of the retail advertising cost.

The rebates originate mainly from manufacturers who make their contributions for cooperative newspaper advertising. Stores in voluntary groups are the only ones which receive these cooperative advertising rebates. One exception is the rebate on National Biscuit Company products which is made to all stores affiliated with this wholesaler. Such affiliation is not the same as that of the voluntary group.

Voluntary Group

The group movement was initiated by this wholesaler out of the recognition of the need for a program of services to the retailer. The inauguration of departments to provide these services was inherent with the development of the voluntary group. On the other hand, it also made it possible for the wholesaler to offer services to all of his customers who would desire to request them. Thus the wholesaler could provide the same services to all without forcing them to pay if they did not choose to benefit from these services.

Store engineering, dealing with problems of remodeling and store layout is one of these services. This also includes location of a building site, locating merchandise within the store, providing retailer with equipment at the lowest possible cost, and assistance with other matters dealing with the physical facilities of the store.

Another service is the concentrated assistance which is given to the retailer during an opening of a particular store. The following is a "guide used for opening new stores" which the company uses, as shown on the next page.

Schools for retailers would be of great assistance it is believed. However, such schools are not being utilized at the present time.

The store supervisor has an important role in the voluntary group. The objectives of the supervisor are presented as they appear on a company printed form titled "What's Our Job?" Ideally, the supervisor should be limited to 35 stores which would be assisted at scheduled intervals. He should see each at least one and one-half days every three months. The optimum voluntary-retailer membership is believed by this company to be approximately 300 stores.

Membership is increased principally by word of mouth. It is the duty of the retail merchandise manager to approach a prospect. Negotiations prior to the joining of the group by the retailer are transacted with the retail merchandise manager.

The obligations of the wholesaler and the retailer to each other are given specifically in the following wholesaler and retailer operating agreement. Generally the retailers' obligations are to: concentrate purchases with the sponsoring wholesaler, maintain a cooperative attitude,

GUIDE FOR OPENING NEW STORES

SUPERVISOR _____

NAME & ADDRESS _____

Agreement signed _____

Financial Statement made out _____

Advertising Contract _____

New Account Application Form _____

Accounting Service _____

Placed on Allotment List _____

Insurance _____

ALL RATION INVENTORY STAMPS

FIXTURES

Adding Machine _____

Egg Scale _____

Platform Scale _____

Awning _____

Garbage Can _____

Refrigerator Case _____

Banana Knife _____

Super Valu Sign _____

Scales _____

Candy Scale _____

Price Tags _____

Scoops _____

Cash Register _____

Light Fixtures _____

Tape Machine _____

Cheese Knife _____

Meat Slicer _____

Twine Holder _____

Coffee Mill _____

Moulding _____

Self Service Gliders _____

Compressor _____

Paint _____

Egg Candler _____

Paper Cutters _____

OUTSIDE MERCHANDISE

Beverages _____

Heinz Products _____

Potato Chips _____

Yeast _____

Loose-Wiles _____

Pop Corn _____

Kraft Products _____

Coffee - _____

Bread _____

(Hills, Folgers and _____

Donuts _____

Butternut) _____

Cake _____

Milk, Cream _____

ADVERTISING

Specials _____

Boxholders _____

Number of Circulars _____

Mailing Permit or Stamps _____

Routes _____

Grand Opening Kit _____

MISCELLANEOUS

Cigarette License _____

Hire Clerks _____

Egg License _____

Beverage License _____

Wall Signs _____

Milk License _____

Departmental Signs _____

Oleo License _____

Fruit & Veg. Signs _____

Beer License _____

Fruit & Veg. Pricing Sets _____

Rubber Stamp Pricing _____

Bank Accounts - Money _____

Aprons _____

WHAT'S OUR JOB?

1. Store Engineering To Save Members Expense.
2. Planning Grand Opening, Birthday Sales, Etc., Helping Set-Up Store In "A Ready To Go Condition".
3. You Have Information on Market Conditions, Trends, Etc. Which Can Be Helpful To Your Members In Operation of Business.
4. Help That Member To Analyze His Store To Gain More In Sales and Profit.
5. Work With Each Member With The Weekly Sale Plan To Fit It To His Store So He Will Sell More Merchandise.
6. Work With Each Member To Help Him In Controlling His Over-Stocks.
7. You Must Realize Your Store's Perishable Depts. Are The Most Important To His Store's Future Sales and Profits. These Departments Must Have:
 1. Freshness At All Times
 2. Good Displays - Price Tagged
 3. A Full Line At All Times
8. This "Retail Plan" Must Be Sold At All Times - Talk It - How? Keep Your Members' Interest To The Highest Pitch Possible On This Deal.
 1. Showing And Suggesting New Methods To Them.
 2. Telling One Member What And How Other Members Are Doing.
 3. Last - Impress Each Of Your Members That In You They Have The Best Contact Man Ever. Sell Yourself. Sell Your Methods And You Will Sell Merchandise.

WHOLESALE AND RETAILER OPERATING AGREEMENT

THIS AGREEMENT entered into between _____, _____, or Branches, hereinafter referred to as Supply Depot, and the undersigned independent Retailer,

WITNESSETH:

WHEREAS the Retailer desires to be licensed and franchised by the Supply Depot to use the trade-name _____ and distribute merchandise at retail under the trade-marks hereinbefore described.

NOW THEREFORE, in consideration of mutual promises, it is agreed as follows:

THE SUPPLY DEPOT WILL:

1. License the Retailer to display the _____ sign and to identify and advertise himself as _____ dealer.

2. Supply the Retailer from its entire line of merchandise (excluding store equipment, store supplies and commodities under Fair Trade Laws _____) at Supply Depot's cost or adjusted cost F.O.B. Supply Depot. Adjusted cost is defined as a figure either above or below cost or market to be determined by Supply Depot, taking into consideration retailer's Super Market competition.

3. Furnish the Retailer with _____ sign or signs on a rental basis, and Supply Depot to carry public liability insurance protecting Supply Depot and Retailer against the damage for personal injury to third persons resulting from or attributable to or the proximate cause of which is the existence of such sign or signs with a limit of \$50,000.00 resulting from one accident.

THE RETAILER WILL:

1. Confine his purchases to and cooperate with the Supply Depot insofar as practicable, including the mailing of orders according to delivery schedule and accompanied by blank signed check written in ink and payable to _____.

2. Accept from Supply Depot on a rental basis, one or more _____ signs at the agreed rental of \$1.00 per sign per annum or fraction thereof, payable in advance and agreeing

WHOLESALE AND RETAILER OPERATING AGREEMENT
(Continued)

further that said sign or signs shall remain the absolute property of the Supply Depot, free from any liens or encumbrances.

3. Cooperate with Supply Depot, especially in the use of retail advertising and promotion of special sales events as evidenced by execution of advertising agreement as collateral hereto.

4. Pay to Supply Depot in advance service and warehousing fees according to current applicable fee schedules. Such service and warehousing fees to compensate the Supply Depot for cost of warehousing, supervision, buying, merchandise, shopping and advertising service.

5. Conform to Supply Depot's specifications as to interior store arrangement and store front identification.

6. Refrain from displaying other signs or insignia detracting from _____ signs.

7. Subscribe to and maintain membership in the Retailers Service Department of Supply Depot and pay the scheduled fee therefore, if, as and when such Department is put into operation.

8. Where special services are required for store engineering, floor plans, blueprints, advertising help, accounting or special supervision other than routine, to pay for such special service a per diem charge of \$15.00 per day plus hotel and traveling expenses.

9. Not question in any manner during the life of this agreement or subsequently the validity and/or ownership of any trade-mark or trade-name owned or controlled by Supply Depot.

10. Recognize the Supply Depot's right to select its customers and in the event of termination of this agreement the ownership of trade-marks or trade-names owned or controlled by the Supply Depot shall not be questioned and further recognizes that there is no obligation on the part of the Supply Depot to continue to sell merchandise to Retailer under its own labels or any other labels, after termination of this agreement as hereinafter provided.

WHOLESALE AND RETAILER OPERATING AGREEMENT
(Continued)

THIS AGREEMENT shall continue in full force and effect until cancelled by either party upon one week's notice in writing, in which event the Retailer agrees that within the one week period he will discontinue the use of the trade-name and/or trade-mark _____ and all names and marks confusingly similar thereto and will remove the said sign or signs and return to the Supply Depot in good condition, transportation charges prepaid, and to repaint the store front in other than red and yellow _____ colors and to do all things necessary to inform the public that the _____ affiliation has been terminated. Failing to do so the Supply Depot shall have the right to enter the Retailer's place of business and thereupon take possession for itself or for its own use all _____ identification and the Retailer agrees to reimburse the Supply Depot for such change of identification expense.

Dated this _____ day of _____ 19__

Retailer

By _____
Supply Depot

Trade Name _____

Supervisor _____

Effective Date _____

Address

coordinate in store promotions with the group newspaper advertising, maintain the prices advertised, and operate a clean, well-managed store.

It is believed that such obligations tend to focus the retailer's full attention on selling and functions of retail promotion other than buying. The problem of buying for the merchant becomes the full time responsibility of the sponsoring wholesaler.

The obligations of the wholesaler are discussed in the following outline titled "cooperative merchandising plan." In summary, the three basic goals of this wholesaler are stated or else implied in this outline. These goals are: to provide the retailer an adequate assortment with an inventory maintained in a consistent manner; to provide a promotional program which is aimed at the consumer; to maintain the necessary services to improve and hold the competitive position of the retailer.

The most outstanding feature of this voluntary group is its advertising service. The warehouse salesman or the supervisor, who replaces the salesman in some cases, meets with a group of the retailers of his territory. This group selects the items to be advertised. The list of items is then sent into the warehouse where it is given a final check mainly concerning supplies of any particular item. From the wholesaler, items selected and approved go to a printer who

COOPERATIVE MERCHANDISING PLAN

- A. This is a "Total" Retail Merchandising Program. Helps you buy everything competitively with chains through group buying.
1. Groceries
 - a. A full "supply" line of nationally known best sellers, and the companion non-footballed line.
 - b. Pricing based on the Detroit market. Same basic plan as large chains pay for groceries.
 - c. A complete "hard hitting" week-to-week retail advertising and merchandising program at low cost which brings results.
 - d. A preprinted order form with chain store shelf prices as the suggested retail prices.
 - e. The services of a competent sales supervisor whose chief duty is to help you be a more successful retailer - to advise you of new and proven retail merchandising, operation and management ideas and techniques.
 2. Meats: A central buying and merchandising plan to give you added sales and greater meat profits.
 - a. The services of a skilled meat supervisor to train personnel in how to make a profit.
 3. Produce: A produce merchandising plan by which you sell and buy competitively with chains and make a fair profit, with policing your costs.
- B. Retailer participation in cooperative advertising allowances.
- C. Daily market flashes on important market changes, and a weekly news bulletin. - The Profit Maker.
- D. The services of a competent store engineer to advise you on store layout changes which should improve sales.
- E. An attractive sign for your store which marks it as an economical and quality place to trade.
- F. Retailer meetings with experienced meat and produce consultants.

makes the layout and mats. These mats are sent to the newspaper which serves the area in which the group is located. The actual meeting of the retailers takes place approximately two weeks before the effective date of the advertisement.

The charge, as was stated before, is divided equally among all stores irregardless of the sales volume of any individual store. The rebates are distributed to each retailer by the wholesaler. The wholesaler checks the items to be advertised each week and then the manufacturer is contacted for collection.

To assist in sales promotion, the warehouse sends four posters to each store. Along with these posters, each retailer receives a weekly stenciled bulletin which contains a review of next week's advertised items, suggested and competitive retail prices, and merchandising information. To a large extent, the cooperation of the retailers is maintained through the weekly meeting of retailers' committee and the warehouse supervisor or salesman. Some emphasis is also placed on the use of private brands to gain retailer cooperation.

Central accounting is obtainable by those stores which request it. A private accounting firm provides this service. Stores which are being financed are the only ones required to have their accounting done in any specific way.

All members must follow the standard program of operating a complete self-service food store on a cash and carry basis. Policy of this nature is aimed at attracting a larger segment of the consumers by offering top quality merchandise at the lowest possible prices. Such standardization of operation is one of the features of the voluntary group.

Expansion into new departments, such as meat, produce, and frozen foods is not within the immediate plans of the company, due to lack of funds. However, a meat merchandising plan is being sponsored. Through this plan, the retailer is not called upon by a meat packer's salesman. Instead, the retailer phones his requirements to the grocery warehouse. Orders from all retailers are then sent to the packer. Trucks of the packer deliver to each retailer without any storage taking place at the warehouse. A meat merchandising supervisor employed by the warehouse calls on the retailers. His tasks involve inspecting the quality of meat received and assisting in merchandising the retail cuts.

Some of the more important considerations of a food wholesaler sponsoring a voluntary retail group have been discussed in the preceding pages. Emphasis has been placed upon the aspects involving the retailer. Thus, store procurement, pricing delivery, supervision, assistance, advertising and sale promotion programs were presented.

CHAPTER V

SUMMARY AND CONCLUSION

Summary

The object, as stated in the beginning of this report, was to compare three different types of food chain organizations. The problem was approached from the standpoint of the nature of the relationship between the wholesale and retail outlets. In one sense, the organizations performing the wholesale function for each of these chains could be considered similar in that many of the functions performed are similar to all three. Actually, the operating situation facing each of these wholesalers was found to be quite different.

It is a well known fact that certain physical facilities and operating techniques within the warehouse enhance operating cost reduction. Thus, the wholesaler can charge the retailer a lower price and the retailer, in turn, can realize a competitive advantage therefrom. Since these three chains may actually be thought of as representing competing business philosophies, it is of utmost importance to their competitive position that the wholesaling function be performed at the greatest level of efficiency. The retail selling price is one factor determining the competitive position of any given store or chain. Another factor is the advantage to be gained by the retailer from retailer-wholesaler

cooperation. These advantages are expressed through services offered by the wholesaler to aid the retailer in proper merchandising and store operation. In short, such advantages are those gained from retailer-mindedness on the part of the wholesaler.

The efficiency and effectiveness with which such services are performed affect the cost of these services and, consequently, the competitive position of the retailer to nearly as great a degree as warehousing techniques and the retail price of merchandise. The extent and technique of performance of these services by three chains was the primary subject considered in this report.

The relative position of stores in terms of sales and store numbers composing these various types of chains was discussed. Although sales per individual store of corporate chains have increased, the percent of the total market claimed by this group has not increased in recent years. From this, it appears that the non-corporate chain stores have maintained their places in the market. However, it should be recognized that the number of stores affiliated with wholesaler-sponsored and retailer-cooperative groups have also increased. Some reduction in sales and number of stores have been realized in the independent store classification. The overall trend seems to indicate larger sales volume per corporate chain store with an increase in the number of non-corporate chain food stores.

The grocery wholesaler has changed a great deal from the wholesaler of the past. Emphasis is now centered upon volume sales and low operating expenses allowing the lowest possible selling price for the retailer. Retailer-mindedness is an ever increasing consideration of the grocery wholesaler. Many methods have been employed to satisfy the apparent need for wholesaler-retailer teamwork.

It might be thought that this need was the driving force behind the formation of the first retailer-owned cooperative. However, discriminatory bargaining practices of independent wholesalers were given as the primary reason for formation of such cooperatives. Assistance to retailers was one of the stated factors in stimulating the formation of wholesaler-sponsored voluntaries, although chain store competition is often given as the reason for this action.

Corporate Chain

The corporate chain presented here was seen to grow from a small business. There was an apparent desire from the standpoint of the founders of this chain to control the wholesaling, retailing and, in some cases, production facilities related to such a business. Maximum control over all phases of the business can, therefore, be realized. Due to this fact, the corporate chain presented in this report has developed many methods of control and communication between the wholesale phase and retail unit. Since the retail sales are

the recognized objective of this company, all other activities become complementary to this. Retailer-mindedness then becomes an extremely important consideration in this operating philosophy. Various techniques have been developed to provide the greatest aid to the retail unit.

Some indication of these techniques is expressed in the purchasing procedure, as developed in Chapter II. Negotiated buying responsibility is assumed by experienced buyers at the general office level who perform the task of buying certain products for all branches of the chain. The branch buyers utilize market testing and a merchandising committee for determining the desirability of certain new products. Purchasing by the retail units is controlled in an efficient manner. Deliveries to the stores are set as to frequency and occurrence and control sheets are used to facilitate purchasing at retail. Survey forms recording the success of techniques used on past sales of certain seasonal products are an additional aid to the branch buyer and the person doing the ordering for the stores.

Coordinating warehouse and retail unit purchasing procedures is one of the tasks of the district manager. Such a person must be well informed on the problems at the warehouse and retail levels. He forms the main stem of communication between planning at the general office and branch warehouse levels and the execution of plans in the retail store.

Store supervision is another task of the district manager with the assistance of the general district manager. Records are maintained which provide a control over present operations, thereby, some guide is obtainable concerning the adequacy with which a given retail unit is performing in relation to the present sales program.

Regular merchandising meetings between the buying and selling groups within the organization provide an opportunity for a high degree of planning, cooperation, and coordination of effort. Due to the fact that a central control of all retail units does exist, central planning can be quite effective.

Advertising claims much emphasis from both the copy layout and selection of products to be advertised. Proper layout receives assistance from specialists at the general headquarters level. The products are, in part, selected by the merchandising board; thus, the greatest possibility exists for the selection of the proper items and the coordination of advertising with other merchandising plans. Different copy layouts are made for outlying districts, therefore, distinctive advertising is provided to smaller newspapers with localized distribution.

A personnel program is an integral part of this company. Included is group insurance, a credit union, provision for

retirement, profit sharing and a vacation schedule. In this manner, the employee is provided additional benefits over and above his regular wage or salary.

Training, utilizing classroom techniques, is coordinated with practical experience in the stores. These classes are held in the branch warehouse which an employee attends before going into any one of the various store operational phases. Management training is given a special consideration. Such training extends through the university level whereby the company provides financial assistance to employees showing outstanding management potential.

New product development and quality control are given special attention by the Kroger Food Foundation. New recipes are devised and, along with old ones, are tested to aid in home food preparation. These recipes and other special information on food uses serve as a merchandising aid to the Kroger stores.

Public relations practices take form in almost every activity of this company. Certain scholarship, cooperative community programs, and employee and store participation in local groups and projects are examples of public relations at work for this chain.

Retailer-owned Cooperative

The retailer-owned cooperative was found to be a business owned and controlled by a group of food retailers through

a board of directors. Seven retail members serve on the board along with the general manager of the warehouse. Background information indicates that this cooperative was begun in order to escape discrimination from independent wholesalers. Thereby, retailers could be provided with merchandise at a lower cost.

Several years of successful operation have gone past since the founding of this cooperative. Many services are now being offered to the retail owners who are also the principal customers of the business. Such services were not included in the original plans of the organization. Some outstanding examples of these services are included in the following: private label merchandise, negotiated buying in cooperation with the Pacific Mercantile Company, delivery service, retail contact man to call on the retailer, provisions for insurance, formation and cooperation with voluntary advertising groups, credit, and other benefits.

The desire for low cost operation places much emphasis on the production of each employee. This results in a tendency toward fewer, more highly skilled employees. The general manager has an important position within the cooperative, primarily because he is responsible for the successful operation of the complete business and must often bear the burden of making decisions without the assistance of specialists.

Advertising layout service is provided by two advertising groups formed from the membership. Items are selected by a committee from the group and printed in two Portland papers with a state-wide circulation. An advertising department is maintained at the warehouse to provide layout and complementary services to the advertising groups.

A contact man calls on the retailers to learn their attitudes in relation to the cooperative. He also makes suggestions and aids retailers in their merchandising problems.

Wholesaler-sponsored Voluntary

The case selected in Chapter IV presents an example of a large independent wholesaler. Central offices of this business are located in Detroit with several branch wholesale houses located throughout the state of Michigan. Special cash and carry depots are also maintained.

The branches operate practically as individual, independent businesses, each receiving a large degree of freedom in its daily activities as far as the central office is concerned. The central office staff is affected principally with negotiated buying of private label products, long range planning, and private label promotion.

Delivery charges are set so as to favor large orders so that direct costs may be controlled. In some cases, pricing techniques are used which favor the purchaser of larger quantities. In other branches, selling price is calculated

in a standard manner by increasing certain groups of merchandise on a fixed percent.

Advertising service is maintained whereby a wholesaler representative and a group from the chain meet and select items to be advertised. Such items are then checked and sent to the printer by the wholesaler. After the ads are made by the printer, they are sent to the local papers serving the particular group of stores. Rebates for cooperative advertising are collected by the wholesaler and passed on to the retailer.

Store engineering service is maintained to aid customers in remodeling and store layout problems. All customers who desire it receive this service. Retailers are charged a 5 percent increase over the price to the wholesaler on all fixtures purchased through the wholesaler. The retailer is not ordinarily assessed for the services of the engineer.

A need for assistance at the retail level and the benefits to be gained from joint wholesaler-retailer planning was recognized by this independent wholesaler. Independent retailers were thus recruited by the wholesaler and a wholesaler-sponsored chain developed.

Retailers receive much assistance from the wholesaler during the opening of a new store. Supervisors are employed to provide continued merchandising assistance to the voluntary group members. It was stated that three hundred was

believed to be the optimum number of stores for a voluntary chain. Each supervisor under ideal conditions would have 35 stores to call upon. At the present time, the supervisor is concerned mainly with collections and duties more related to a salesman than a supervisor.

Conclusion

It would be highly desirable at this time to say that one of these chains herein discussed was definitely better than the others, or that retailers of each type could obtain merchandise at as low a price as any of the others, but this can not be stated from the information presented. Due to the many problems involved, it was not deemed practical to carry on the necessary investigation to determine effectiveness from a cost standpoint. Various factors were discussed, however, which are directly related to the effectiveness of the retail and wholesale unit relationship.

Assuming that the connection between the wholesale and retail phases is of primary importance in the ultimate competitive position of each of these groups, the question then concerns what factors are important in such a relationship and how they should be performed. From the facts gathered, the corporate chain seems to be the leader in the development of techniques, through staff and complementary functions, to aid the retail store. Such an operating procedure is practically dependent upon the factor of central control. This

type of control is not utilized by either of the other two chains. Dependence upon corporate chain store techniques by the other two types of chains is likely to be quite hazardous.

The corporate chain has been successful in coordinating efforts toward the assistance of the retail unit, but much effort has been incurred in so doing. There exists the danger of cumbersomeness and repetition due to the large size of the organization. For the most part, the business is conducted by men who do not have any considerable ownership interest. Therefore, they are not likely to have the incentive equivalent to that of an owner. Especially is this true at the retail level where store personality is such an important element to the American buying public and is so dependent upon the attitude and ability of the manager of that store. Therefore, more emphasis needs to be placed upon the importance of the store manager's position. Certain profit sharing and bonus plans are in operation to attempt to overcome the incentive problem. It is possible that more decentralization of responsibility with emphasis on the branch as being practically independent would eliminate some duplication of efforts and allow for greater flexibility of operation.

The retailer-owned cooperative would seem to exist as the organization with the greatest potential concerning co-

ordination between the retail and wholesale phase. Such a condition would be due largely to the fact that the retailer is owner of the retail unit and also part owner of the wholesale organization. Incentive should, therefore, be strong to cooperate with the wholesale phase as well as maintain the highest possible operating standards at the retail level. However, there is also likelihood of a conflict of interests between wholesale and retail operations and a de-emphasis of proper management of the wholesale phase in lieu of expense reduction.

The great advantage of this cooperative is that all members share a common problem and have a common goal - the successful operation of the retail unit. Failure of any one member will reflect back to weaken the position of the group. The proper operation of the warehouse is of particular significance to all members because of their ownership interest and the fact that the cost of merchandise is reflected in such management. With this in mind, a high degree of cooperation between the wholesale and retail phase should be attainable. Such a situation would represent a fairly optimum condition.

In the case of the cooperative used in this example, little real effort was seemingly evident to impress upon retailers the advantages of cooperation. A contact man was employed who acted principally in the capacity of an emissary

between warehouse and store management. Such a means of communication is undoubtedly serving a useful purpose within this cooperative, but there is danger in confusing the duties of liaison with the tasks necessary to instill the desire for and create the situation of progressiveness within the retail members.

Retail advertisements were prepared by a specialist and printed in newspapers with statewide circulation. There was no consideration given to the preparation of mats for local papers which serve the trading areas of particular stores. A practice of sending mats to smaller papers could likely increase the membership of the advertising group. The benefit received by retailers from such centralized advertising could advance their competitive position, thereby increasing the strength of the entire cooperative group.

It is likely that the performance of the retail function is going to benefit more by a procedure of educating the retailer concerning the facts of operation with which the wholesaler is faced and the actions by which the retailer could best profit. Such an attitude of give and take implies ideally a comparatively small group of similar stores. Therefore, it could be more important for emphasis to be placed upon a homogeneous and somewhat limited membership rather than an extensive group.

The effectiveness of corporate chain techniques of

supervision do not appear promising in their application to cooperative chains. Great strength can be realized in an organization of this type if members can be convinced of the desirability of specific actions. However, facts rather than edicts are going to be more important in accomplishing coordination and increasing the effectiveness of the retail unit.

Some evidence exists that the independent wholesaler sponsoring the voluntary chain discussed is striving toward corporate chain techniques. The hazard involved in such action is the fact that independent retailers must be dealt with and not simply retailing units of a corporate chain. One of the greatest advantages of the wholesaler-sponsored chain is the fact that the retail store managers are, for the most part, independent merchants. These people should be extremely willing to act in any manner that will augment their competitive position. This action, however, will not likely be forthcoming unless convincing evidence concerning a certain course of action is available.

Attention is, therefore, focused toward retailer-minded fact finding facilities at the warehouse level. A person acting in the present capacity of a supervisor would then depend a great deal upon such facts to clarify his reasoning to retailers involved. Such an idea as this might appear impractical and too expensive. In answer to this, the

wholesaler must ask himself what it is that he needs to accomplish and how valuable is such an accomplishment going to be to him. There is certainly no economy in spending even a small amount for activities which are ineffective.

It is possible that the title of supervisor indicates poor word choice. There is implied in this title the fact that a supervisor is in some way better equipped than are practitioners. Such is quite likely not representative of the case in practice.

The advertising service appears to be one of the most attractive features of the voluntary chain as far as potential retail members are concerned. It is possible that this fact indicates one of the strongest features of the voluntary chain. Every effort should be made to improve the advertising service that is being offered.

The effectiveness of the retail operation has a direct bearing upon the competitive status of any given retail chain. There is an apparent tendency toward more wholesaler-retailer coordination to aid in accomplishing the objective of retailer effectiveness. The efficiency with which such wholesaler-retailer relations are performed can, therefore, be directly related to the competitive position of a food chain. The most advanced example of such coordination appeared to be indicated by the corporate food chain.

The corporate chain has reached a high degree of

development in coordinating all phases of the entire business related to merchandising. It is difficult, however, for a business organized under a fundamentally different philosophy to utilize corporate chain techniques. The basic problem exists of the need for assistance to the retailer and for coordination of the retailer-wholesaler phases. The most effective technique which will provide the solution for this need will likely vary with each business situation. Therefore, techniques can not ordinarily be taken from one situation and used in another. Rather it is for management to determine the objectives to be reached and then create techniques which will satisfy these objectives.

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