THE FOOD AND GENERAL MERCHANDISE COMBINATION: A PARADOX IN CHAIN FOOD STORE RETAILING

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CHAPTER I

INTRODUCTION

Definition of the Problem

The phenomenal growth of the super market industry has been attributed to low gross margin, rapid turnover, cash and carry, and self-service. This was the "backbone" of the industry. Super market operators are now faced with the prospect of turning the modern super market into a "modified" department and variety store. General merchandise, sometimes called "non-foods", is becoming more important as increasing costs and competitive conditions force the addition of more profitable lines of merchandise into modern day super markets.

Purpose of the Study

The purpose of the study is to consider some of the factors which are paradoxical. The chain food business has relied on tonnage velocity in past years. High tonnage warehouses have been built to supply large volume store operations. Profit was the result of velocity and low gross margin rather than high gross margin alone.

General merchandise by its very nature is not subject to high velocity movement. General merchandise carries high gross margin, low turnover, and sometimes results in large amounts of capital being tied up in inventory which would reduce return on invested capital. It is a low tonnage proposition.

It is the author's primary purpose to convince the food industry that general merchandise is directly contrary to the very foundation upon which the super market industry was built. General merchandise is a distinctively different kind of business calling for different policies, controls, and operational procedures, and, consequently, while not proposing its elimination, we are urging it be closely scrutinized from the point of view of a different merchandising philosophy from that appropriate to foods.

The author does not have the answer to all of the problems connected with general merchandise. The information presented in this study is suggestive in nature. There is no one best way to do things. At the risk of being impudent the author contends that there is not one single operation in any chain food organization which cannot bear some improvement at some point, particularly in this controversial area of foods and general merchandise, new approaches to analysis are called for.

This paper will suggest some policy issues and some criteria for evaluating non-food products from a financial viewpoint. A comparison will be made between food, department, specialty and variety stores, the purpose being to suggest that each is distinct, to some degree, in their method of operations and that the operating ratios reflect these differences.

Importance of the Study

A need for a study of this nature is evidenced by the importance of inventory control in the operation of chain super markets. The amount of money involved in general merchandise is comparatively large compared to investment in food products due to the high unit value of products and relatively slower rates of turnover. A mistake in handling general merchandise can be costly. Lack of insight may result in a compounding of mistakes: a restriction of working capital and a loss of valuable store shelf space as well as the resulting reduced return on invested capital.

Limitations

This study is concerned primarily with the operations of the chain food industry. Size of stores or companies is not taken into consideration nor is the method of procurement of general merchandise. Some companies purchase general merchandise directly from the manufacturer. Others use a combination of direct purchasing and rack jobbers. The discussion is concerned primarily with chains having central accounting departments, company warehouse service and top management located outside the stores.

No formal survey has been conducted nor has a standard questionnaire been sent out to various companies. It is an agglomeration of bits of information secured from a variety of sources such as trade publications, correspondence with individuals active in trade associations and bureaus of business research plus a measure of personal observation and speculation. The author bears full responsibility for any shortcomings and opinions expressed. All ideas proposed herein are not meant to be a reflection of the views of contributors to this study unless explicitly stated.

CHAPTER II

PRELIMINARY CONSIDERATIONS

Definition of General Merchandise

General merchandise has been considered a catch-all classification for items sold in grocery stores and super markets which fall outside the realm of traditional grocery items. Some differences of opinion exist regarding the correct name for this new department. According to a survey conducted by Chain Store Age Magazine of the executives of 29 leading chain store operations 19 preferred the name general merchandise, 3 preferred non-foods, 2 either general merchandise or non-foods and 5 had titles of their own.[1] Regardless of the varying titles, all refer to the same merchandise.

Chain food executives seem to agree on a working definition. General merchandise may be defined as "non-edible merchandise that is not included in traditional grocery store merchandise selections". Perhaps no two grocers are in exact agreement regarding whether or not an item is a "traditional" grocery item.

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1. "General Merchandise is Replacing Non-Foods", Chain Store Age, October 1959, p.85.

Rather than become involved in an argument of semantics it might be assumed that it makes little difference what name a specific company chooses for this new department. Suffice it to say that there is a great deal of interest in new lines of non-grocery products.

Reasons for Handling General Merchandise

High gross margin is possibly the main rationalization used for handling general merchandise in today's super markets. A typical super market will average 31 per cent on its general merchandise lines.[2] The super market operator needs to carry items which have a higher than average gross margin in order to offset the ever increasing costs of doing business, mainly in building, equipment and labor expenditures.

Impulse buying on the part of the consumer is another motivation for offering non-food items in food chains. An impulse sale may be defined as one in which the customer has not intended to buy a specific item but when confronted with an item makes a "spot" decision to purchase. The volume of customer traffic in a super market makes impulse sales a source of potential additional profits.

Consider a given super market with a weekly customer count of 5000. If each customer would conceivably

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2. R. W. Mueller, Progressive Grocer, April 1959, p. F-13.

purchase one additional 10¢ item, the store would increase its gross sales by $500. Assuming an average gross margin of 20 per cent, that super market would add $100 to its gross margin. Since a large portion of investment in building and equipment is fixed, any increase in sales volume will reduce the expense percentage to gross sales ratio.

Another factor may be the desire of the super market operator to enhance the status of his market as a one stop-shopping center or to use the profit derived from the sale of general merchandise to offset a loss-leader method of operation on regular grocery merchandise items.

The Importance of General Merchandise

According to Progressive Grocer Magazine, the typical super market in 1958 devoted 15 per cent of its grocery department space to general merchandise. This 15 per cent of total space brings 5.2 per cent of sales, 8.3 per cent of total gross profit dollars and upwards of 25 per cent of the stores net profit dollars.[3]

The seven major classifications, Health and Beauty Aids, Housewares, Magazines and Books, Soft Goods, Toys, Phonograph Records, and Stationary reached a total sales volume of 1.82 billion compared to a total of 220 million in 1950. The sales gain represented a gain of approximately 827 per cent compared with a gain of 81 per cent in total

3. Mueller, Op.Cit., p. F-13.

food store sales.

It is a fact that general merchandise is becoming increasingly important. General merchandise is here to stay and is important from the standpoints of volume and net profit dollars. The difficulty arises when trying to decide how far to go and what changes are necessary profitably to capitalize on the increased demand for general merchandise products.

Can Chain Food Store Operators Afford to Merchandise Their Own General Merchandise?

A chain store warehouse is essentially a wholesale place of business. Its operations are quite analogous to those of a regular wholesaler. It receives the goods, maintains inventories, breaks bulk, delivers and bills the retail merchandise to the retail units and employs supervisors to inspect the store and assist the store managers much as do the wholesalers saleman.[4]

There is little doubt that retail chains can contact the same sources of supply as the rack jobber but this would force the chain operator to purchase this merchandise. Housewares do not lend themselves to as rapid a turnover rate as canned vegetables. Hence, there is a reluctance on the part of some chains to tie up their

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4. H. H. Maynard and T. N. Beckman, PRINCIPLES OF MARKETING, Ronald Press, New York, 1952, p. 333.

own capital in slow moving items. If he buys directly, the chain operator will argue that he can operate more efficiently than the rack jobber and thus his operating costs will be lower than the rack jobbers' operating costs. He will also argue that he can control the merchandise more effectively in such areas as selection of merchandise and methods of display within the stores.

The operating capital of a chain store must be turned over quite rapidly in order to produce profit dollars. Some chains have gone to the extent of charging interest against excessive inventories carried in their stores. The average stock turn for the Rawson Drug Company, a rack jobber, is 6 to 8 times a year.[5]

The chain operator will argue that he can hire a buyer who is a specialist in non-foods and that he selects merchandise as effectively as the rack jobber. Accounting will be no problem due to machine accounting and machine stock control systems now in use in their organizations. Large rack jobbers also use machine accounting. The Rawson Drug Company uses a Ramac installation.

There are possibly five valid reasons for going around the rack jobber. If the chains do their own direct purchasing from manufacturers and do their own warehousing,

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5. L. Gilbert, Supermarket News, September 28, 1959, p.24.

they can state the following reasons for such action:

1. The nature of the goods warrants it.
2. The desire for closer control over the products.
3. Economy and the desire to reduce selling costs.
4. Dissatisfaction with the rack jobbers' services.
5. The desire of chains to buy direct.

The rack jobber has served the chain store industry very well. He continues to provide the items that the consumer wishes to buy at little actual risk to the store operators. Many large chains have retained the rack jobbers' services until they have learned how to operate as effectively. The author believes that housewares by their very nature cannot be integrated successfully and economically by the chain food industry as have the health and beauty aid departments.

Sales have increased and will continue to increase in the future. The Rawson Drug Study of four super markets in northern California states that housewares in the average store consisted of over 1800 items secured from 476 manufacturers. For every item displayed in test stores, there were five on hand in their warehouse.

The Chain Food Industry cannot as profitably invest its money in merchandise for purposes of carrying heavy reserve stock in warehouses. It is inconceivable that any chain would be willing to have five items on hand in their distribution center for each item displayed in their stores.

CHAPTER III

THE IMPORTANCE OF DEVELOPING GENERAL MERCHANDISE POLICIES

Introduction

The heads of chain food organizations work with and through other people. This statement seems trite but the implications are often overlooked. The keenest analysis and the most brilliant plans of an administrator are useless unless the individuals on whose efforts he must depend work together effectively along the lines planned.

Within the chain food industry substantial changes in objectives and operations are being undertaken due to the current interest in non-foods or so called general merchandise lines. The chief executives may have to find some new person or persons with special abilities; they also may have to retrain persons in the existing management group.

Since the chief executives are responsible for what actually happens, they need to watch actual performance and results closely in order to guide the organization toward predetermined goals or objectives. Significant deviation from the predetermined goals may indicate a need for a reappraisal of the goals, alteration or possibly abandonment, if necessary, and the establishment of new objectives.

Some method must be devised to measure deviations from predetermined goals. A system of controls is useful in order to measure differences between the actual state of affairs and the desired state. Control information should be more than historical data. It must include current data, so that in the light of unfolding events a usable basis is provided for the reappraisal of the original goals and the effectiveness of the organization's decisions.

Reappraisal involves taking another look at the original objectives of the organization and progress to date. It is possible that the original goal may be found to be effective in which case the organization is assumed to be efficient. That is, the goal has fulfilled the purpose for which it was designed. Conversely, if the reappraisal reveals that the actual state of affairs deviates from the desired state and expected results are not being achieved remedial action should be taken.

Thus the chief executives are put on notice that there were weaknesses or breakdowns in either planning or performance. If control information is adequate the chief executive will be able to discover where the actual or potential trouble lies and will be able to take corrective or preventative steps as necessary.

The need for developing policies regarding general merchandise lines

A policy may be defined as a plan of action; a way of management; practical wisdom or prudence. Policies covering the distribution of food have been developed through experience over long periods of time by virtually all chain food organizations. Traditionally the same organizations have been involved in the business of satisfying one of man's basic human needs, the desire for food. During this time, many changes have taken place in the physical distribution of foodstuffs. The growth in the number of items carried from a few hundred in the 1920's to thousands in the 1960's, the increased size of stores from the small corner grocery to the mammoth super markets of today, and increasing competition are a few of the factors which are responsible for the development of experienced executives. These men are living with growth and changing external conditions. The men who have developed food policies are currently engaged in their further development and reappraisal.

The distribution of general merchandise in super markets is a comparatively recent innovation. Certain categories of general merchandise, health and beauty aids and general household supplies such as brooms, mops, buckets, sponges, have been included in grocery assortments for a long period of time. Only recently has the food industry looked with favor upon broadening the lines carried. Thus the development of policies covering new lines of merchandise previously foreign to super markets needs attention.

"The typical super market devoted 15 per cent of grocery department space to non-foods in 1958. This 15 per cent of total space brings 5.2 per cent of sales, 8.3 per cent of total gross profit dollars and upwards if 25 per cent of the stores net profit dollars".[6]

Health and beauty aids alone contributed 2.3 per cent of total sales in the average super market.[7] If these figures are accepted as true, only 2.9 per cent of total store sales are contributed by the six remaining general merchandise categories including housewares, magazines, soft goods, toys, records and stationery.

The move towards broadening the lines carried and widening the range of items within each line would seem to indicate a need for the development of policies concerning the suitability and desirability of this type of merchandise in retail food establishments.

<u>What type of policies are needed?</u>

1. <u>Policies are needed in order to establish the role of general merchandise relative to the food business.</u> Chain food organizations will vary according to their individual desires. Some contend they are primarily food merchants and general merchandise is not to be developed

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6. R. W. Mueller, <u>Op.Cit.</u>, p. F-13.

7. Editors of Chain Store Age, <u>Chain Store Age : Grocer's Manual</u>, July 1959, p. 222.

extensively. Others have seen fit to develop non-foods as an end in itself. Regardless of varying attitudes it is important that the type of business desired and its relationship to the food business be established and stated clearly.

2. Pricing policies need to be developed. What price ranges are desirable? Is maximum margin desired rather than maximum sales volume? How will each of these alternatives affect investment in inventory, turnover, gross margin and expenses. Prices should be sufficient to yield a profit after all related expenses have been attached to general merchandise. It is not sufficient to use average warehousing costs and average store costs. High margin is not an economic justification for handling general merchandise. This type of merchandise requires special handling at the warehouse level, the cost of breaking bulk, special packing boxes, the operation of a security cage, delivery, checking in at the store, price marking is more difficult and slower requiring more man-hours of labor. The danger of pilferage is greater. The price of general merchandise must be high enough to cover all costs and still contribute a net profit over and above that normally received on regular grocery merchandise.

3. How broad and how deep need assortments be? What types of merchandise are desirable? How many different categories are needed? Are many categories of merchandise

desired with shallow depth or vice versa? How will this effect gross margin, inventory turnover and investment in inventory not only in the stores but also at warehouse level? Will special buyers be required? Is the organization more interested in "cream-skimming", that is carrying only a few of the best selling sizes as in the case of tooth paste for instance or do they wish to compete with drug stores by carrying all sizes of pastes and powders? The more complete the line, the slower inventory turnover, the more valuable space required in stores.

4. How is general merchandise to be promoted? Is general merchandise best promoted by newspaper advertising or handbills? Are they to be promoted jointly with food? Separately? What type of sales promotion is necessary to establish the general merchandise business? How will they be promoted once established? What will this do to the store image from the customers standpoint?

5. Policies must be established in order to control the general merchandise. A method of communication is necessary in order to inform all branches and divisions of management goals regarding the general merchandise. Decisions made at all levels should be consistent and in support of top managements intentions. This is especially important since some chains have established branches and divisions as semi-autonomous units. In such situations it

is necessary to sell these units on the general merchandise business regardless of personal preferences of the heads of branch and division operations.

6. Food policies and general merchandise policies must be compatible. Policies covering the general merchandise business as expressed by top management's desires to either cultivate the business or to concentrate its efforts primarily on food should be clearly stated in order that there be no misenterpretation of the desired goal of the company. The general merchandise business must not be promoted at the expense of the food business and vice versa.

Conclusion

The answers to these questions will not be attempted. They constitute only suggestions as to the type of questions that top management must consider and answer according to their individual attitudes toward the general merchandise business. Perhaps no two chains will agree completely yet it behooves all of them to state policy explicity in order to secure the cooperation of all individuals within their respective organizations.

CHAPTER IV

A SUGGESTED POLICY PROGRAM

General Policies

General merchandise should be developed as an end in itself. Regardless of whether primary emphasis is to be placed on food or general merchandise the character of the goods makes it highly desirable to treat this merchandise as a separate and distinct business. General merchandise departments are a contradiction of the very foundations upon which the super market industry was built, namely: low gross margin, cash and carry, rapid turnover and rapid return on invested capital.

General merchandise generally has a high gross margin, slow turnover and substantial investment in inventory particularly in those chain organizations which insist on purchasing the merchandise themselves. Even those chains which use rack jobbers for most general merchandise will agree that health and beauty aids alone result in a substantial investment in inventory. The only justification for handling general merchandise is that of yielding a minimum return which must be set by management above the return available on food lines. General merchandise must make a significant contribution to net profit dollars.

The general merchandise selection should appeal to the same class of consumer currently served with food products. It is assumed that a general merchandise business must be developed over a period of time. Super markets have a natural advantage in customer traffic which may be exposed to their general merchandise offerings. However it must be recognized that many customers shop the same specific store, week in and week out. If the same merchandise is presented to basically the same customer over a period of time there is a danger that if it is segregated in a specific section this area of the store will be by-passed by Mrs. Consumer on her weekly shopping trips unless the merchandise is rotated and new items added which will attract her attention. The quality of merchandise offered should be comparable to that offered in department, variety and specialty stores. Nothing will destroy a general merchandise business more rapidly than inferior quality products not to mention the detraction from the reputation of the organization. Merchandise offerings then should appeal to the housewife since it is she who normally does the shopping for food.

Merchandise should include regular stocks of staple merchandise. Seasonal merchandise, such as picnic supplies for summer, work gloves and snow shovels, are varieties which should attract the customer. Specially priced merchandise secured on an in-and-out basis should aid in making a general merchandise department more interesting and attractive.

Sales promotion practices should be in accord with proven methods. Super market operators must recognize the fact that they are competeting with drug stores, variety, junior department, hardware and discount houses to some degree in addition to competing with rival super market operators.

Prices therefore should compare favorably with all types of competition faced. In order to establish a general merchandise department, it should present to the consumer the impression that economies of distribution are available in the super market due to a large volume operation. That is not meant to apply to health and beauty aids where the retail prices have been established and accepted by the consumer. Emulation of the successful should not be ruled out completely.

Customer services. Super market operators should not endeavor to offer charge accounts, layaway, COD, delivery or other credit services as offered by department stores. Granted at least one person should be available at all times to aid customers, the addition of a multitude of services will quickly eliminate the advantage of the higher gross margin that is available on general merchandise products.

General merchandise should be a separate and distinct department for purposes of control regardless of where the items included in it are displayed. This would include the promotion of general merchandise, identifiable separately from food; and the use of promotional devices such as newspaper advertising which differs from normal advertising of food products. The use of illustrations and more space per item advertised possibly would make more of an impression on the reader of advertisements. Unless merchandise is identifiable from food products, control will be lost. General merchandise requires special handling, fixtures, promotions and markdowns. In order to attach the expenses involved to the proper merchandise and to determine the profitability of the line it is necessary to know what percentage of total sales is contributed by general merchandise.

Merchandising Policies

What type of assortment should be offered? Merchandise assortments should include the common, personal, everyday needs of customers. Major emphasis should be placed on staple regularly stocked items of low unit price. Style merchandise due to a variety of complications should be avoided if at all possible. The handling of soft goods on a large scale requires a wide range of sizes and colors. It requires breadth and depth of assortments. Repeated handling results in soiled merchandise which eventually must be marked down.

Assortments should be tailored for individual stores. Every chain organization should consider differing social, economic and ethnic groups which shop in their stores. In regard to general merchandise, chain organizations cannot afford to consider customers as a homogeneous group. This is not meant to infer that buying can be done for each store individually but rather that buyers select merchandise carefully and individual store managers be allowed to select their specific assortment from that available in the warehouse. In this way the individual store manager who is in daily contact with his particular customers can tailor his stock to his specific needs. This does not preclude an occasional planned promotion of merchandise offered on an in-and-out basis.

The majority of items stocked on a regular basis should be restricted to a nominal price as determined by individual company policy. Generally customers do not expect to purchase "high-priced" merchandise in a super market. A distinction should be made between impulse items and shopping goods.

An impulse item might be defined as one in which the customer has not entered the store with the specific intention of buying an item but rather is confronted with the item, attracted to it, decides to buy in rapid succession.

A shopping good purchase is one which the customer has contemplated prior to the time she is actually confronted with the merchandise. This type of purchase normally involves a large enough expenditure that Mrs. Consumer is willing to compare prices at several different stores previous to her purchase. She will not normally expect to find this type of merchandise in a super market. Therefore major emphasis should be placed on low prices in an effort to attract customers.

From whom should general merchandise be secured? An inspection of the types of merchandise which an organization desires to handle should reveal sources of supply. If the organization desires to purchase merchandise outright, it should be acquired from strong reputable vendors in order to secure consistent quality and reliable delivery.

This does not preclude the use of rack jobbers in some categories of merchandise for instance records, books and magazines, and soft goods which are subject to rapid obsolesence and require large investment in inventory. In such cases reputable rack jobbers should be used.

Each category of merchandise should be examined regarding expected gross margin, actual distribution costs, cost of invested capital in inventory, fixtures and turnover. The advantages and disadvantages of direct procurement should be realistically appraised regarding each and every cost involved. This should then be weighed when considering the advantages and disadvantages of employing a rack jobber service. Control over the stock assortment should not be secured at the expense of reduced net profit dollars.

General merchandise should be marked at a central warehouse location. There are perhaps several good reasons for centralized marking of general merchandise, the first being the need for legible prices on the merchandise. Due to irregular sizes and shapes of this merchandise price marking at store level may be illegible at least initially. All merchandise should be clearly marked as an aid both to the customer and the cashier. Another reason might be that the per unit cost of marking merchandise might be less when the employee is uninterrupted in his work.

Service Policies

General merchandise should be displayed neatly on clean fixtures. Poor appearance, dust and untidiness in general are more likely to appear in this department than in grocery, produce or meat due to the large variety of sizes and shapes, plastics, glassware and metalware displayed. In an effort to avoid markdowns, spoiled merchandise and lost sales, cleanliness should be expected and demanded in the general merchandise department.

General merchandise departments should be staffed at all times by at least one person. Someone should be available to answer questions regarding general merchandise as to its quality and characteristics for the convenience of the customers. Contact between customer and employee in this department may have a twofold purpose, increasing sales and good will for the store in total.

Adjustments should be made fairly and promptly. This applies to all merchandise throughout the store but is especially important in the general merchandise line. In many instances the only contact a customer has with store personnel is when she asks for information or has a complaint. In the interest of customer satisfaction, she is entitled to fair treatment and prompt adjustment. If a customer is mistreated, the chances are great that not only will her patronage be lost but also her friends will more than likely be informed regarding her dissatisfaction.

Credit or charge accounts should not be offered. If the chain desires to sell general merchandise of nominal price, credit and charge accounts would entail additional expenditures which would necessarily be reflected in higher prices due to costs of credit checks, billing and a reserve for bad debts as well as personnel to handle these arrangements. An additional factor to consider would be investment of capital in accounts receivable.

Markdowns should be taken at store level. Markdowns should be taken rapidly on over-age or soiled stock in order to maintain high standards of physical appearance in the general merchandise area. An allowance should be made to stores for this purpose. Department stores in 1958 averaged 6.0 to 6.5 per cent of net sales in markdowns and had a range of 1.15 to 1.30 per cent of net sales in stock shortages.[8] No figure is recommended to the food industry. It is only suggested that some provision be made according to individual company policy regarding markdowns which must be expected in this type of business.

Food stores should not be undersold regularly by competitors. This is suggested as a means of strengthening customer confidence and belief that economies of distribution are available in super markets. Another advantage might be the attraction of general merchandise departments to new customers who have been in the habit of purchasing this type of merchandise at drug, variety and department stores.

Promotion Policies

The allowance for promotional expense applicable to general merchandise should be greater than for foodstuffs. Higher margins possible on general merchandise permit the

8. M. P. McNair, Operating Results of Department and Specialty Stores in 1958, Bureau of Business Research, Harvard University, 1958, p. viii.

allocation of additional promotional expense without destroying profit. The purpose of advertising is to attract attention, create interest and desire on the part of customers providing them with the incentive to take action and make a purchase. General merchandise is a new business and therefore customer attention must be directed to it. It must be an attractive department in order to draw the attention and interest of customers shopping for food. Specialized advertising at more frequent intervals and possibly separate space divorced from the regular food advertisements is suggested as a possible solution to creating maximum impact on customers with newspaper advertising. Clearance sales and out of season merchandise should be advertised in an effort to avoid carrying out-of-date stock over to the following year.

Promotional merchandise and merchandise that has been reduced should be segregated from the display of regularly stocked merchandise. Promotional merchandise generally should present the impression of economy to the consumer. Markdowns provide the customer with an opportunity to save money on the purchase of out-of-date or soiled merchandise. Regularly stocked merchandise should represent the best of the general merchandise line and be maintained as such.

Store layout and fixtures should be provided which are specifically designed for this type of merchandise. Store shelving designed for stocking cans certainly is not suitable for the display of general merchandise. Fixtures which meet the display needs of the merchandise stocked with regard to flexibility, size and space must be provided. This infers shallow depth and easy accessibility. General merchandise, while a department in itself, should be adjacent to related food categories or to high traffic locations within the store.

Organization Policies

Budgets and records covering pertinent data relative to the performance of general merchandise should be developed and maintained. Records in greater detail and frequency than for food are needed because of the great variation in the kinds of general merchandise stocked, the differences in performance such as turnover and margins, the changes in types of categories and items offered for sale. Differences due to the geographical dispersion of stores is another factor worthy of consideration.

Merchandising responsibilities for general merchandise should be separated from food lines. General merchandise requires separate procurement and maintenance of warehouse stocks apart from grocery merchandise. Inventory control is a much more difficult task due to the low velocity movement and the changing character of assortments unlike food products which are relatively stable in nature. Assortments must be selected for stores, sales plans developed, control procedures placed in operation and some method devised for the evaluation of stores performance. This would seem to indicate a need for additional personnel at the store, warehouse, division and regional levels who would become specialists in general merchandise exclusively.

Conclusion

The purpose of this chapter has been to suggest an administrative program in terms of policies appropriate to general merchandise. General, merchandising, service, promotion and organization policies have been in existence for food products for a long period of time. However the same policies cannot necessarily be applied to foods and general merchandise alike. The character of the goods warrants the development of policies designed specifically to cope with the problems which will arise from handling this new and different type of business within the grocery industry.

CHAPTER V

THE PARADOX IN HANDLING GENERAL MERCHANDISE

The Combination Store: A Dissenting Opinion

The wedding of the super market and the general merchandise store under one roof sounds like an unbeatable combination. Unfortunately, this is not the case. The high gross margins available on general merchandise combined with the dense customer traffic of food stores is attractive to an industry accustomed to "slim" profit margins.

The addition of health and beauty aids on a limited scale met with success rapidly. This encouraged many food chains to expand their efforts in this direction by the addition of such items as glassware, hosiery, plasticware, aluminumware and a few other items. The success of general merchandise has been due to the ability of buyers to offer selected merchandise in super markets.

Some food chains, like Grand Union and Giant Foods of Washington, D. C. incorporate the general merchandise store into their operation. The distinction between these stores and their regular food stores is made by changing the name to Grand Ways and Super Giants. Others, like Whites' of Knoxville, Tennessee build general merchandise units adjacent to their super markets. Davisville Market in Davisville, Pennsylvania owns and operates a complete hardware and variety store adjacent to its market.

According to Freimut Viehweger, head of the Davisville Center Corporation "It doesn't make sense to cram some non-foods items into a smaller supermarket and tell yourself you're running a complete non-foods operation. Actually all you're doing is cutting down on food variety and not doing sufficient non-foods business to make up the difference."[9]

"We've tried to do a complete merchandising job at each location so that 90 per cent of the housewife's daily shopping needs will be carried in one of the two units. And most of her other needs are conveniently located in stores run by tenants in the center.[10] Hardware, notions, housewares, soft goods and stationey are a few of the items stocked in good depth by the hardware and variety store.

This new concept in retailing, the combination of food products and general merchandise is expected to yield higher earnings per square foot of selling area. The desire of food chain operators, in exposing general merchandise to the food customer within the same store, is that

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9. D. Clement, "Own Adjacent Setup Boon to Independent", Supermarket News, July 4, 1960, p.28.

10. Ibid.

yield per square foot of selling area will be increased automatically.

Will These Merchandise Assortments Combine?

There are some intrinsic components in the merchandise assortments of department, variety, specialty and food stores which will not combine readily. An examination of the operating results of each type of business compared to the food industry yields some interesting results:

TABLE I

SELECTED PERFORMANCE RATIOS FOR FOOD AND VARIETY CHAIN STORES (based on data for the year 1958)

Performance Factors	Food Stores	Variety Stores
Gross Margin[a]	20.60	39.00
Expenses[a]	18.70	34.15
Pre-tax Profit[a]	2.89	5.85
Net Profit[a]	1.41	3.20
Net Profit to Net Worth	13.69	7.64
Weekly Sales per Square Foot[b]	$3.22	$1.70
Turnover (annual rate)	12	4

[a]Figures based on per cent of sales.

[b]Figures based on sales per square foot of selling area.

The sources of information presented in Table I are: Fairchild's Financial Manual of Retail Stores, 1959 and Operating Results of Food Chains in 1958, Harvard Business School.

Table I illustrates some notable differences which exist between food and variety stores. Factor one: the annual turnover rate to merchandise is three times greater for food stores than for variety stores. Factor two: expenses as a per cent of sales in food stores are approximately half as great as that common in variety chain stores. Factor three: weekly sales per square foot of selling area in food stores are almost double that of variety stores.

For illustrative purposes assume a typical weekly rental cost per square foot in super markets equal to $.05 per square foot per week. Granted this figure is an approximation and will vary from chain to chain. The idea is that a rental charge per square foot of selling area in super markets, applied to the general merchandise section and to the food section have a definite bearing on the yield on these specific departments.

TABLE II

SELECTED DATA FOR FOOD AND VARIETY STORES

Data	Food	Variety
Weekly sales	$3.22	$1.70
Gross margin	20.6	39.0
Turnover rate	12	4
Rental cost per square foot[a]	$ .05	$ .05

[a]Uniform rental cost is applied to food and variety stores alike based on the assumption that super market operators do not charge different rental rates for floor space as commonly practiced in department stores.

Source: Table I

Apply these figures to a combination store divided equally among food products and general merchandise of the type found in variety stores.

The following assumptions are made concerning the store:

1. Gross selling area: 40,000 square feet
2. Food selling area: 20,000 square feet
3. General merchandise area: 20,000 square feet

Sales in the food section would total $64,400 ($3.22 times 20,000 square feet). Gross margin is $12,880 ($64,400 times 20 per cent). Rental charge for selling area would be $1000 (20,000 square feet times $.05).

Sales in the general merchandise section would total $34,000 ($1.70 times 20,000 square feet). Gross margin yield in dollars is $13,260 and the rental charge for the selling area would be $1000.

At first glance the general merchandise section appears most profitable. However the most important component, turnover, considerably changes the first impression. Excluding all expense factors other than the rental charge produces the following results:

TABLE III

SELECTED OPERATING RESULTS FOR FOOD AND VARIETY STORES

Results	Food	Variety
Weekly gross sales	$ 64,000	$ 34,000
Weekly gross margin	12,880	13,260
Less: Rental charge	1,000	1,000
Sub total	$ 11,880	$ 12,260
Times: Annual turnover	12	4
Annual yield	$142,560	$ 49,040

The preceding figures make certain facts evident. The higher margins available on general merchandise are not sufficient to make up for substantially greater food volume. Profit is a function of gross margin and turnover less all related expenses.

Where then is the profit in combining a super market and a variety store? The sales yield of $1.70 per square foot weekly will not just automatically rise by virtue of the fact that general merchandise is on display in a super market rather than in Woolworths, Kress, Kresge or an H. L. Green store. Can the food industry afford to speculate in the variety store business?

How about a combination food-department store?

TABLE IV

SELECTED PERFORMANCE RATIOS FOR FOOD
AND DEPARTMENT CHAIN STORES
(based on data for the year 1958)

Performance Factors	Food Stores	Department Stores
Gross margin[a]	20.60	36.20
Expenses[a]	18.70	33.80
Pre-tax profits[a]	2.89	5.65[c]
Net profit[a]	1.41	2.75
Net profit to Net Worth	13.69	6.00
Weekly sales per square foot[b]	$3.22	$2.02
Turnover (annual rate)	12.00	3.80

[a]Figures based on per cent of sales.

[b]Figures based on sales per square foot of selling area.

[c]Includes 3.25 per cent net other income.

The sources of information presented in Table IV are: Fairchild's Financial Manual of Retail Stores, 1959 and Operating Results of Department and Specialty Stores in 1958, Harvard Business School.

Repeating the same assumptions used in Tables I and II of weekly rental charge of $.05 per square foot per week applicable to floor selling space in super markets and applying it to the food section and the department store sections the following results are noteworthy.

TABLE V

SELECTED OPERATING RESULTS FOR FOOD AND GENERAL MERCHANDISE OF DEPARTMENT STORE TYPE

Results	Food Stores	Department Stores
Weekly gross sales	$ 64,400	$ 40,400
Weekly gross margin	12,880	14,624
Less: Rental charge	1,000	1,000
Sub total	11,880	13,624
Times: Annual turnover	12	3.8
Annual yield	$142,560	$ 51,771

Again, one glaring factor is apparent. The turnover rate destroys the myth of high profit and increased yield per square foot of selling area by combining a food store with a department store. Where is the profit in dividing a super market equally into a combination food store and department store? Each is a separate and distinct business and must be treated as such regardless of whether operations are conducted under one roof or they are physically separated in two adjacent stores.

TABLE VI

SELECTED PERFORMANCE RATIOS FOR FOOD AND SPECIALTY TYPE DEPARTMENT CHAIN STORES (based on data for the year 1958)

Performance Factors	Food Stores	Specialty Stores
Gross margin[a]	20.60	38.70
Expenses[a]	18.70	37.60
Pre-tax profits[a]	2.89	2.85[c]
Net profit[a]	1.41	1.40
Net profit to Net Worth	13.69	7.05
Weekly sales per square foot[b]	$3.22	$2.00
Turnover (annual rate)	12.00	3.75

[a]Figures based on per cent of sales.

[b]Figures based on sales per square foot of selling area.

[c]Includes 1.75 per cent of net other income.

The sources of information presented in Table VI are: Fairchild's Financial Manual of Retail Stores, 1959 and Operating Results of Department and Specialty Stores in 1958, Harvard Business School.

TABLE VII

SELECTED OPERATING RESULTS FOR FOOD AND GENERAL MERCHANDISE OF THE TYPE OFFERED IN CHAIN SPECIALTY STORES

Results	Food Stores	Specialty Stores
Weekly gross sales	$ 64,400	$ 40,000
Weekly gross margin	12,880	15,480
Less: Rental charge	1,000	1,000
Sub total	11,880	14,480
Times: Annual turnover	12	3.75
Annual yield	$142,560	$ 54,300

The Theory of the Combination is Impractical

A typical super market is primarily an outlet for food products. The amount of customer traffic necessary to sustain a food store will not support a variety department or specialty store of the chain store category. On a foot-for-foot basis each of these stores requires more families and more individual sales to support it.

Some of the most notable differences in operations follow. Food purchases are quickly consumed. Meat, produce, milk, eggs, bread and similar products are purchased so frequently by the consumer that a small number of households will sustain high volume levels in super markets.

General merchandise lines are not generally consumed as quickly as foodstuffs. A variety store or department store requires a greater number of households to support it relative to a super market.

The success of general merchandise in super markets has been due to the fact that general merchandise sections are based on lines with high consumptive factors. According to a survey conducted by the Burgoyne Grocery and Drug Index[11], almost one out of three super market shoppers has purchased hosiery in super markets.

One out of four shoppers has purchased soft goods including shirts caps, hankerchiefs or children's clothing in super markets. Health and beauty aids such as toothpaste, razor blades, shampoos, face creams, sanitary napkins and similar items frequently have annual turnover rates of 6 to 7 times in food stores comparing favorably with the annual turnover rate of approximately 12 times for food products.

The extension of these lines to include greater breadth and depth within the assortment will slow the turnover down closer to 4 times which is normal for variety, department and specialty stores.

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11. Burgoyne Grocery and Drug Index, Fifth Annual Continuing Report, Cincinnati, Ohio, October 6, 1958.

TABLE VIII

THE FREQUENCY WITH WHICH WOMEN SHOP
DIFFERENT TYPES OF STORES

Type of Store	Daily	3-4 Times Weekly	1-2 Times Weekly	Less Often
Grocery	29.1	31.2	36.5	3.2
Variety	2.0	6.9	40.4	50.7
Drug	3.1	10.9	39.0	47.0
Department	1.8	5.2	37.1	55.9

Source: Batten, Barton, Durstine and Osborn, Inc.
Food Staff Presentation Number 15

Attention is directed to the fact that the large majority of women interviewed shop variety, drug and department stores less than once a week. This should provide added emphasis to the argument that these types of stores must draw on a much wider range of households in order to support them.

Additional Factors for Consideration

The number of families shopping in a food store are not sufficiently numerous to support a full scale variety, department or specialty store.

Food store shopping is geared to a much faster pace than variety store shopping and especially department store shopping. Eight or more checkout lanes are common in large super markets. Express lanes in which the customer purchasing a few items may be served rapidly without having to stand in line are examples of the pace to which modern day super markets are accustomed. Many super market operators will agree that time is of the essence especially when the customer reaches the checkout stand. Store layouts are designed for speed and customer convenience.

In the variety and department stores, shopping is more deliberate. The consumer explores the store visiting various departments in search of her various household needs. Shopping for apparel is a much slower process. A visit to any variety store reveals that many variety store purchases are made by non-food shoppers. Teen-agers account for a substantial share of typical variety store volume as well as department store volume.

How can the operator of a super market expect to transform the food shopper into a general merchandise shopper while under the same roof? Speed of service in the food store is desired yet how is it possible to slow the customer down to the more deliberate and explorative pace required in variety stores?

The general merchandise section in a super market is not self-sustaining. Reliance is placed on persuading the food customer to shop the general merchandise area.

Therefore traffic in this section is limited to the number of customers who enter the store with the intention of shopping for food. Is traffic alone enough to support a general merchandise section? The general merchandise section must be developed to a point where it can operate independently of the food section if it is to be considered successful.

On a foot for foot basis, the super market cannot compete with H. L. Green, Kresge or Woolworth's. These stores are specialists in general merchandise just as the food chains specialize in food products. The variety store will produce more assortment in breadth and depth, more specialization and more style items. The food store offers the same factors in food, the main difference being new food products instead of style items.

Variety store chains are starting to offer services such as charge accounts, lay away and other credit services which are not offered by food stores. Are food chains ready and willing to offer comparable services?

Consider for a moment the store image. Since the early 1930's when super markets really gained customer support, the super market regardless of its mammoth size has been associated with food products. It is still a food store to the customer. The purchase of general merchandise while primarily shopping for food certainly should not be overlooked. But when Mrs. Consumer is contemplating the purchase of a dress for her daughter, or a lamp for her home, or toys for the children does she associate these items with the super market or other types of stores?

Super market operators enjoy the lowest lease per cent rates among all chain stores but in the past few years this rate has been rising. According to Progressive Grocer Magazine, store rent and real estate cost as a per cent of total sales was 1.01 in 1954, 1.07 in 1955, 1.07 in 1956, 1.12 in 1957. One of the reasons for this advance might be that the additional amount of space being devoted to slower moving general merchandise reduces the yield per square foot of store space. The leasor must compensate by adjusting his lease rate upwards especially since food stores are growing larger in size.

Food stores are not financially capitalized for general merchandise. High tonnage velocities in the case of food-operations require a highly liquid cash position.

TABLE IX

INVESTMENT IN INVENTORY AND CASH POSITION OF SELECTED CHAIN VARIETY STORES IN 1958
(in millions of dollars)

Chain	Inventory	Cash	Ratio
Butler Bros.	23.2	4.7	4.9:1
Eagle Stores	1.5	.6	2.5:1
Fishman Co.	2.4	.5	4.8:1
H. L. Green Co.	23.6	5.6	4.2:1
Kresge Co.	60.0	36.3	1.7:1
Kress (C. H.) Co.	30.7	8.8	3.5:1
McLellan Stores	11.8	1.8	6.6:1
Neisner Bros.	12.4	2.4	5.2:1
Newberry Co.	41.2	12.1	3.4:1
Rose's Stores	6.3	1.9	3.3:1
Woolworth Co.	151.1	71.4	2.1:1

Source: Fairchild's Financial Manual of Retail Stores, 1959.

The range is from 1.7:1 to a high of 6.6:1 with a median value of 4.1 dollars invested in inventory for every dollar of cash on hand.

TABLE X

INVESTMENT IN INVENTORY AND CASH POSITION OF
SELECTED CHAIN FOOD STORES IN 1958
(in millions of dollars)

Chain	Inventory	Cash	Ratio
A. C. F. Wrigley	22.5	11.1	2.0:1
Alpha Beta	6.5	2.2	3.0:1
American Stores	57.7	28.5	2.0:1
Bohack Co.	11.3	6.2	1.8:1
Colonial Stores	37.3	11.6	3.2:1
First National	31.1	11.0	2.8:1
Fisher Bros.	6.4	3.0	2.1:1
Food Fair	35.6	17.2	2.0:1
Grand Union	44.8	10.7	4.2:1
Great Atlantic & Pacific	272.1	148.2	1.8:1
Kroger Co.	116.6	52.5	2.2:1
National Tea Co.	54.8	19.3	2.8:1
Penn Fruit	10.1	5.6	1.8:1
Red Owl Stores	14.2	5.5	2.6:1

Source: Fairchild's Financial Manual of Retail Stores, 1959.

The range is from 1.8:1 to 4.2:1 with a median value of 2.5 dollars invested in inventory for each dollar of cash on hand. It might be noted that the Grand Union Company also operates Grand-Way discount centers and a route division.

TABLE XI

INVESTMENT IN INVENTORY AND CASH POSITION AND CUSTOMER ACCOUNTS RECEIVABLE OF SELECTED CHAIN DEPARTMENT STORES IN 1958
(in millions of dollars)

Chain	Inventory	Cash	Inventory to Cash Ratio	Accounts Receivable
Allied Stores	90.5	26.1	3.5:1	67.5
Associated Dry Goods	42.6	7.0	6.1:1	42.8
Broadway-Hale	29.2	3.3	8.8:1	18.5
Federated Stores	68.5	24.4	2.8:1	96.0
Gimbel Bros.	47.7	8.8	5.4:1	73.3
Macy and Co.	51.3	14.8	3.5:1	26.7
Marshall Field	31.5	11.6	2.7:1	26.9
May Co.	62.1	19.6	3.2:1	96.6
Penney Co.	192.9	53.2	3.6:1	5.2

Source: Fairchild's Financial Manual of Retail Stores, 1959.

The range is from a low of 2.7:1 to a high of 8.8:1 with a median value of 4.4 dollars invested in inventory for every dollar of cash on hand. One additional factor bears consideration, the heavy investment in accounts receivable. According to the Harvard Report, installment sales as a per cent of total volume was 16.5 per cent in 1958. Regular charge accounts were 42 per cent, COD sales and lay away 3.5 per cent. Cash sales amounted to only 38 per cent of total sales volume.

Tables IX, X, XI illustrate that the typical food balance sheet calls for less money to be invested in inventory than in the variety or department store business. Additional consideration should be given to the amount of time required to turn the money invested in inventory into cash. Grocery inventory turns approximately 300 per cent more rapidly than variety store and department store merchandise.

The last consideration is the matter of peak store shopping hours. Food stores operate with sharp peaks of hourly traffic depending upon the shopping habits, pay day schedules of industries which employ their customers, Sunday closings, the type of advertising and promotional arrangements of given geographic locations. A general merchandise business living exclusively off food customer traffic is faced with the prospect of being unprofitable from the standpoint of sales volume many of the hours during which the store is open for business.

Conclusions

The future of general merchandise in food stores is likely to be more in the direction of expanding selected products rather than in the construction of huge combination food and variety stores. Food chain operators will attempt to exercise more discretion in the selection of items which can be incorporated into natural food selling patterns as in the case of health and beauty aids, hosiery and glassware. Consumer demand must be developed in order to attain sufficient movement of selected products to justify the investment, time and effort required in handling general merchandise.

Fixtures designed to conserve space and produce typical food store sales per square foot of selling area must be purchased or built in an effort to increase the yield per square foot of precious space.

Packaging that is attractive and that is designed to reduce pilferage will become more important to buyers due to the high unit price of general merchandise. A peg board and hook arrangement is becoming increasingly popular for several reasons: Merchandise of small size can be placed at eye level for the consumer to view. Many "facings" are not required sometimes enabling a dozen items to be placed on one hook as in the case of thread or needles. The display retains its neat appearance and does not require constant care.

Food chain operators cannot overlook the fact that they are bound to a high volume method of operation. A reduction in volume from cases to "dozens" and "half-dozens" upsets the earnings formula of "low margin times high turnover minus operating expenses = profit."

Super market operators must realize that stores, warehouses, and an organization geared to high volume operations are not applicable to low volume, high profit sections within their respective stores.

High gross margin per unit of merchandise is entirely meaningless unless it is combined with a volume that compares favorably with the food earnings formula.

CHAPTER VI

A MARKETING APPROACH TO GENERAL MERCHANDISE

Introduction

How do you pick the winner? A new product presents real problems particularly in general merchandise. What is the performance potential, in terms of the profit and loss statement? What about similar products? Have they been successful or have they needed special attention and promotion in order to stimulate movement?

Buyers are not prophets. When confronted with new general merchandise products, they are likely to ask themselves four simple questions.

1. Does the product have sales potential and the ability to attract the attention of many customers?

2. Can it be sold at a price customers are willing to pay?

3. Can it be sold profitably from the standpoint of the chain food organization?

4. Does it present to the consumer the impression of economy and value?

If the answer to these questions is not "yes", the product does not belong in a super market. What's really new and different about the product? Does it fill a need? Will it add new sales to the store's sales volume? Will customers purchase it more than once? Does the product give the store a profit margin and turnover that will justify the shelf space devoted to it and yet yield a good profit?

According to Robert Mueller[12] of Progressive Grocer Magazine the following comparison is made between the super market of 1949 and 1959.

1949	1959
6000 square feet	20,000 square feet
3500 items	6000 items
$12,000 weekly sales	$60,000 weekly sales
Competition - 1 super	Competition 3 or 4 supers

According to these figures store size has increased 340 per cent while the number of items stocked has increased approximately 170 per cent. At this rate stores in 1969 would near 70,000 square feet in size and stock in the neighborhood of 10,000 items. How many of these items will be outside of the realm of traditional grocery items?

Some Criteria for General Merchandise

The following items are suggestions regarding the selection of general merchandise categories and items with-

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12. Robert Mueller,"Food Distribution in the 1960's" an address to the Grocery Manufacturers of American 51st Annual Meeting, November 10, 1959.

in categories:

1. General merchandise should yield a return in dollars per square foot of space equal to or greater than space devoted to grocery items or the item doesn't belong in the super market.

2. Items should appeal to women since they normally do the grocery shopping for the family.

3. The item should be consumable and have universal appeal. Glassware, particularly glasses would meet this criteria. Lamps, furniture and appliances would not meet the criteria.

4. Competition bears consideration. Competition probably has less effect on hardware and health and beauty aids than on soft goods. The addition of discount houses in shopping centers currently underway should provide some interesting results. According to Mr. S. O.. Kaylin[13], gross margins on soft goods in discount houses are ranging from 21 to 28 per cent.

5. Packaging should serve as a deterrent to pilferage. Razor blades, lipsticks, thread, needles, buttons and similar merchandise of small size should not be handled on a self service basis unless presented in a blister pack or card arrangement.

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13. Personal correspondence with Mr. S. O. Kaylin, Executive Editor of Chain Store Age, June 17, 1960.

6. Impulse items of the common every day variety may be better for super markets than other types of goods. Broadening a line of soft goods presents problems of color, size, style which would necessarily increase the investment in inventory, display space and other operating costs. How many blankets, mixers or pillow cases does a housewife buy in a year compared to tumblers, home permanents or spools of thread?

7. General merchandise should be a value for the customer. If an item is advertised as a special purchase, whether in newspapers or via display cards within the store, the customer must be impressed with the price and quality of said item otherwise she will ignore it.

8. Quality should be maintained. Is it better to offer "junk" at low prices or quality at reasonable prices? If repeat business is desired, not one inferior quality product should be allowed to creap into general merchandise selections. This is especially important if the general merchandise section of the store is expected to become self-sustaining over a period of time.

9. Experience is the best teacher. Chain store operators might benefit from the methods used by manufacturers in test-marketing new products. Rather than purchase a general merchandise item and distribute it to all stores within the chain, would it not be more reasonable to try

it out in a few locations prior to chain wide distribution?

The nine criteria suggested are a few of the main factors which should be considered when contemplating the purchase of new general merchandise items. Each buyer develops his own criteria for the evaluation of products. One thing must be remembered, the customer can always exercise the "veto power" over his decisions simply by not purchasing his selection. The philosophy of the buyer should not be what items can be offered to the customer which are highly profitable to the chain organization but rather what items does the customer desire that the chain organization can offer to her and still make a profit.

Problems Created by Direct Purchasing

"In cases where there are no full time non-foods buyers, who does the buying? According to the respondents to a survey conducted by Super Market Merchandising magazine, the most likely people in the order of rank are the grocery buyer or head buyer, the owner or executive officer, the store supervisor. It is surprising how frequently the store supervisor is given the job of buying non-foods. But it is logical when all other buyers are loaded with buying duties on their own lines, the store supervisor should be singled out."[14]

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14. "The Progress So Far in Non-Foods", Super Merchandising, March 1960.

The survey included 63 companies controlling 1767 stores. 12.5 per cent of the stores by size of company had no fulltime non-foods buyer. An additional 21.6 per cent had one person purchasing this merchandise full time.

The author is in no position to question the wisdom of the owners and executive officers of these institutions assuming they are successful operators but it does not seem logical that any company interested in general merchandise would entrust the purchase of this line to a store supervisor simply on the basis that all of the regular buyers are too busy purchasing their own lines. The store supervisor in a great many companies lacks buying experience having advanced from store management positions to store supervision which is quite different from the buying function.

The following factors are advanced for consideraction in purchasing general merchandise products:

1. Specialized knowledge is required. The purchase, service and establishment of general merchandise departments at the warehouse level and at store level requires individuals familiar with this type of product.

2. Additional warehouse space will be needed as well as personnel to maintain and operate this division. Stores will not order cases but rather dozens and someone has to break bulk packages and prepare them for delivery to the stores.

3. Additional store space is required. This involves a great deal of work trying to fit a general merchandise department into a building with fixed physical limitations. Assuming this can be done, what guarantee is there that the placement of the general merchandise department will not be at best haphazard?

4. What happens to items that just won't sell? Many items will become obsolete or shop worn. The warehouse wishes the stores to dispose of this merchandise at store level. The store manager will be reluctant to reduce prices for clearance in an effort to maintain his retail balance as a result the merchandise rots on the shelves. Is this the way to maintain customer interest in a general merchandise department?

5. Housewares come in irregular sizes and shapes. Some items are very bulkly, others quite small. This creates a space problem in the warehouse when storage arrangements are anticipated. How about space in the stores? How can merchandise of such a wide range of sizes be suitably displayed? The removal of fixtures and minor remodeling jobs are required if neat appearance is to be maintained.

6. Many items are seasonal in nature and even merchandise purchased on an in-and-out basis sometimes results in "left-overs". Snow shovels will not sell in July nor lawn chairs in freezing weather. How can a buyer anticipate

the right quantity to purchase? He wants to secure every possible sale yet is reluctant to purchase merchandise that might result in an inventory problem by being carried for several months.

7. How much variety is necessary? The bulk of items carried should be of a staple nature yet customer interest is dependent upon the ability of chains to offer something new, something different and something appealing to the housewife.

Conclusion

These are a few of the factors which chain store operators must evaluate when contemplating the direct purchase of general merchandise as opposed to rack-jobber service. The risk is great, the investment substantial and the rewards difficult to determine.

A survey[15] conducted by Batten, Barton, Durstine and Osborn Advertising Agency reveals items which women say they would like to be able to buy in their grocery stores. Some of these items are already stocked by many chain stores. However this is the type of merchandise that appeals to women.

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15. "A Study of Non-Food Items in Grocery Outlets", Batten, Barton, Durstine and Osborn Incorporated, Food Staff Presentation Number 15, New York p. 36.

Adhesive tape

Aluminum foil

Art flowers

Bags for lunches

Baskets

Bias tape

Bird supplies

Black tape

Bulbs (flower)

Buttons

Cake pans

Can openers

Cards

Carving knives

Car wax

Charcoal

Children's hose

Children's lingerie

Clocks

Cup cake papers

Dish cloths

Dishes

Dish pans

Dish towels

Dust cloths

Dust pans

Dye

Electric waxer (to rent)

Everyday dinnerware

Film

Gift wrapping supplies

Household tools

Inexpensive gift items

Ink

Laxitives

Lighter fluid

Mothballs

Notebook paper

Paper tablecloths

Paper towel dispensers

Paraffin

Pencils

Peroxide

Picture hooks

Pie tins

Plastic aprons

Plastic starch

Plastic tablecloths

Razor blades

Round toothpicks

Rubber gloves
School supplies
Shaving lotion
Shopping carts
Small potted plants
Snap fasteners
Snaps
Stamps
Stockings
String
Tacks
Tacks
Thumbtacks
Thread
Towels
Toys
Wash cloths
Waving lotion
Writing paper
Zippers

The wide variety of suggestions offered by Mrs. Housewife for the most part is very enlightening. There is little coherence in the wide variety of merchandise suggested. One thing should be noted, price. Every item suggested involves items in a very nominal price range. Each encompasses the everyday needs of women or their families, items she has need for quite often, things that are helpful and useful to her in performing her daily duties.

Lamps, luggage, clothing and appliances, though they may appeal to some customers, do not appeal to the majority of a super market's customers who are necessarily the general merchandise shoppers also within a given store.

CHAPTER VII

A MEASURE OF SUCCESS: RETURN ON INVESTMENT

Return on Invested Capital

The Operating Results of Food Chains in 1958, a study conducted by Harvard University under the direction of Professor Wilbur B. England discloses some interesting operating ratios. Return on capital stock and surplus among 27 reporting food chains follows:

Year	Return
1955	11.99 per cent
1956	14.19 per cent
1957	14.36 per cent
1958	13.69 per cent

Why did the return on investment decline in 1958? There are many factors which possibly might influence this figure. Perhaps it might be increasing real estate costs, wage rates or maybe the expansion of general merchandise lines.

Mr. Reese Verner, at the request of the National Association of Food Chains, sent a questionnaire to a number of member companies.

Although the sample was small the following factors appear pertinent. The average return on invested capital was 17.9 per cent compared to a return of 13.7 per cent on food products.[16]

The markup range:	31 to 40 per cent
Profit before taxes:	8.8 to 10 per cent
Cost of equipment per store:	$960 to $21,000
Annual stock turn:	3.7 to 11.9 times
Return on invested capital:	5.8 to 30 per cent

The wide variation between the minimum and maximum figures shows that some of the respondents are successful from the return on investment approach. Others are not so successful. There is no guarantee that the addition of general merchandise will automatically result in a profit. A return on invested capital of 5.8 per cent reported by some chains is far below the 13.7 per cent average reported on food products. An annual stock turn of 3.7 is less than that of department, variety or specialty stores. The markup range of 31 to 40 per cent is attractive but the Harvard Report discloses the following merchandising data:

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16. Reese Verner, an address to the 26th Annual Meeting of the National Association of Food Chains, Washington, D. C., October 20, 1959.

TABLE XII

MARKDOWNS AND STOCK SHORTAGES IN DEPARTMENT STORES 1952-1958 (per cent of net sales)

Year	Markdowns	Stock Shortages	Total Reductions
1952	6.20	1.30	7.50
1953	6.20	1.30	7.50
1954	6.25	1.25	7.50
1955	6.05	1.15	7.20
1956	6.25	1.15	7.40
1957	6.50	1.25	7.75
1958	6.45	1.30	7.75

Source: Operating Results of Department and Specialty Stores in 1958, Harvard Business School.

These markdowns must be taken into consideration. Markdowns must be anticipated and provision be made for them when handling merchandise similar to that carried in department stores.

Practical Performance Limitations

What are the results that can be expected from general merchandise? Some criteria must be developed in order to evaluate potential products realistically. A suggested criteria follows:

1. Gross Margin. The lowest allowable gross margin per cent in general merchandise should be controlled by the expense ratio. Total expenses including interest for 27 identical food chains reporting to the Harvard Business School were 16.88 per cent in 1955, 17.89 per cent in 1956 18.62 per cent in 1957 and 18.78 per cent in 1958. The upper limit to gross margin will be controlled by competition, that is drug, hardware, variety, department as well as competing food chain organizations and discount houses.

2. Expenses. Minimum expenses as a per cent of sales should be approximately 19 per cent comparing favorably with the expense ratio involved in handling food products. A reduction in expenses might be possible in some organizations. However, general merchandise possibly is better able to pay for increased promotion, advertising and similar items designed to develop a general merchandise department. Conversely, expenses should not be allowed to exceed the expected gross margin per cent.

3. Turnover. The annual turnover rate of general merchandise at store level, in no instance, should be less than 4 times which is average for variety and department stores. Annual turnover of 6 to 8 times perhaps

should be the upper limit with the exception of health and beauty aids. The most efficient rack jobbers admit that an annual turnover of 8 times is very good for them.

4. Sales per Square Foot. Minimum sales per square foot of selling area should not be less than that attainable in variety stores ($1.70 in 1958). A practical upper limit suggested in $3.40, twice that attainable in variety stores and is slightly in excess of the $3.22 per square foot of selling area attainable in the space devoted to food products in 1958 according to the Harvard Study.

The suggested performance limitations are attainable standards and contemplated additions to general merchandise lines should fall within these minimum and maximum ranges.

A Target Rate of Return

The author advocates the use of a target rate of return on invested capital in inventory and equipment as a measure of success in general merchandise lines.

Management tends to look at improvements in their total operation and then to attribute improvements to general merchandise lines. The question posed relates to control procedures. Is general merchandise really profitable? If so, which items and which lines are responsible for the profitability of the department?

Super Market Merchandising Magazine[17] reports typical super markets carry an average of 335 items in health and beauty aids, 475 in housewares, 50 in soft goods and 55 in toys. According to their estimation of sales performance, the breakdown of dollar sales attributable to specific categories follows:

Health and beauty aids	$800 million
Housewares	425 million
Soft goods	150 million
Toys	100 million
Records	50 million
Garden supplies	75 million

Health and beauty aids with an average of 335 items per store accounted for $800 million in sales volume while housewares averaged 475 items, 140 items more than the preceding category, and contributed $425 million in sales volume.

It should be obvious that the more general merchandise stocked, the slower will be stock turnover of total inventories. The results may be a decrease in actual return on invested capital rather than an increase.

A target rate of return should be established for each line within the general merchandise department whereby

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17. Non-Food Buyer's Guide, Super Market Merchandising, March 1960, p. 27.

chain store operators will know exactly what each line is contributing to overall department performance.

The same procedure can be applied to contemplated additions to lines. Suppose 25 per cent is the desired rate of return on invested capital, gross margin approximately 18 per cent and total expenses 17 per cent. The inventory would have to turn approximately 22-25 times annually to hit the target figure. How many general merchandise items in the entire selection will turn so frequently?

Gross margin, expenses, turnover and return on invested capital are interconnected. Each factor will have a definite bearing on the other and all must be taken into consideration when attempting to measure the profitability of general merchandise departments and items within the department.

Conclusion

The purpose in giving the aforementioned percentages is to point out that one of the most important factors in the food industry is turnover. Hundreds of new items are being added to food lines. A substantial share of the items in modern super markets were not on the shelves ten years ago.

The desire to expand general merchandise lines and to establish larger departments will lead to increases

in store size and additional inventory requirements. Perhaps now is the time to become more analytical in the selection of merchandise with future needs in mind. Store size cannot increase indefinitely and more space is going to be required for new food products.

CHAPTER VIII

SUMMARY AND CONCLUSIONS

Summary

The purpose of this study is to present general merchandise to the reader as a separate and distinct business calling for the development of new policies and approaches to analysis in a highly controversial area of merchandising.

The chain food industry has risen to prominence partially due to the ability to more tremendous quantities of merchandise while extracting a very low gross margin and yet has received a return on invested capital which is superior to that received by investors in chain variety, department and specialty stores.

It is hoped that the results of this paper will be an aid to the food industry and will provoke some thought. All information presented is suggestive in nature.

Conclusions

The chain food industry has been geared to high tonnage velocity. General merchandise by its very nature is not subject to velocity movement. Large amounts of

money are involved in general merchandise relative to investment in food products due to the high unit value of items.

General merchandise is directly contrary to the very foundations upon which the super market industry was built. Although the high gross margin is attractive, turnover is low and expenses are high particularly in the soft goods area due to soiled merchandise and repeated handling. General merchandise is a <u>low</u> tonnage proposition.

Recommendations

1. Recognize general merchandise as a separate and distinct business.

2. Anticipate customer's needs and offer her useful merchandise which she uses quite often.

3. Establish separate policies designed to cope with problems arising from handling general merchandise.

4. Abandon ideas of building super, super markets and concentrate on increasing the efficiency of existing facilities.

5. Become more selective in adding new lines of non-food products.

6. Examine the problems created by direct purchasing.

7. Set realistic goals for general merchandise departments.

8. Recognize the limitations of offering general merchandise in super markets.

9. Is traffic enough to support a general merchandise department?

10. Super markets are competing with variety department and specialty stores in the general merchandise area.

11. Markdowns must be expected and some provision made for them.

12. Quality at reasonable prices is more important than inferior products at low prices.

13. General merchandise offerings should be restricted to nominal price ranges.

14. The merchandise appeal must be directed to women.

15. The general merchandise department is not self-sustaining and therefore attention must be directed to it.

16. Customers cannot be considered a homogeneous group particularly in regard to general merchandise.

17. General merchandise upsets the earnings formula. Super market operations are not capitalized for variety store business, therefore attention should be directed to turnover rather than gross margin alone.

18. Expenses are greater for general merchandise

than for food products.

19. Know the products and the lines which are profitable in the general merchandise department.

20. General merchandise should be a separate department for purposes of control regardless of where the merchandise is displayed within the store.

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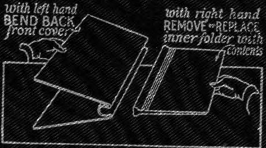
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