THESIS

WHERE DO THE WHOLESALE BAKERS GO FROM HERE---RETAIL?

by

Clarence Edward Denham

A THESIS

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

MASTER OF BUSINESS ADMINISTRATION

Department of Marketing

1962

TABLE OF CONTENTS

PREFACE

The wholesale baking industry is a sick industry. This is the concensus of the leaders of the industry. The major problem is considered to be the distribution costs which currently average 30 per cent or more of the sales dollar and are still rising.

The American Bakers Association is studying this problem as are many of the member companies. In fact, Continental Baking Company has assigned a vice president to work exclusively on the problem of distribution costs.

Instead of attacking distribution costs directly as the basic disease causing the industry's illness, I propose that distribution costs are merely symptoms. The real issue is to be found in the artificial barriers which generate extra distribution costs. If this proposition be true, it may well give new direction to the efforts and energies of the industry and shorten the recovery period.

This is not a problem that is peculiar to the baking industry. Several other major food processing industries, meat and dairy in particular, are faced with a similar problem.

The food processing industries have witnessed a tremendous evolution in food wholesaling and retailing, particularly since the turn of the century. This evolution has demanded new methods of distribution to meet the needs of the new marketing methods and forces. At this point in the evolution it is apparent that the food processors and the wholesale bakers, in particular, have failed to keep pace. As the evolution continues the pressures from the integrated food warehouses and retail stores, as well as the so-called "discount houses," will increase and the pressures of price competition will become even more severe.

The pressures of price competition come primarily from food retailers who are themselves embattled over the whole range of food and non-food items in a struggle for the consumer's patronage. Lower distribution costs will, no doubt, be achieved as the bulk of grocery retailing shifts to larger volume units. This transition will require the wholesale baking industry to find and develop more efficient methods of distributing its products or perish.

The commercial baker through improved technology and equipment has been able to maintain control of production cost in the face of rapidly increasing labor costs and the addition of numerous varieties of product. He has not been able to do as well where distribution costs are concerned. In fact, the commercial or wholesale baker has been losing control of the distribution costs. This is where the opportunity to make a real contribution to the industry lies, namely, controlling these mounting costs of distribution.

I have been most fortunate in having been exposed first hand to both the production and distribution operations of wholesale bakeries for the past eight years. Not only has this exposure given me the opportunity to study these two basic operations, but it has allowed me to become acquainted with a number of people in the industry.

While making this study of distribution costs, I have received a great deal of encouragement from members of the baking industry and also from my classmates who represent various segments of the food industry.

I wish to thank Miss Ruth Emerson, Librarian for the American Institute of Baking. Miss Emerson has been most helpful to me as I searched for information.

I particulary wish to express my sincere appreciation to the management of Continental Baking Company who gave me the opportunity to make this study, and to my wife, Carolyn, who bore the burden of typing patiently and cheerfully.

Clarence E. Denham

INTRODUCTION

When we ask, "What is the baking industry?" we are immediately faced with a number of fractions in describing its many segments. Therefore, a common denominator must be found before the industry can be described or segmented for study and comparison. One denominator that can be used is the customer. By using the customer as a denominator we can divide the industry roughly into two basic categories.[1]

The first category would be that portion of the industry that sells its products directly to the ultimate consumer. These are the retail bakeries in the truest sense, whether the sales are door to door or over the counter. It would also include instore bakeries in supermarkets whether they are owned by the supermarket operator or by a baker who has some type of lease arrangement with the supermarket operator in regard to display and/or production space.

The second category would be the portion of the industry that does not sell directly to the ultimate consumer. The bakers in this portion generally consign their merchandise to distributors who, in turn, sell to the ultimate consumer.

---

[1]Russell E. Davis, "The Depth and Impact of Supermarket Bakery Activities," Baking Industry (April 29, 1961), p. 96.

This category could be called the manufacturing or wholesale bakeries. It would include those bakers who sell primarily to the retail food store or supermarket. Broadly speaking it includes wholesale bakeries and chain store bakeries. Many of these bakers sell also to institutional customers such as restaurants, drive-ins, hotels, et cetera. In fact, a few of the wholesale bakeries sell exclusively to the institutional trade in the larger cities.

Another common denominator suggests that the industry might be categorized by the degree of perishability of the product. This would be the semiperishable products and would include the biscuit, cracker, and cookie bakers. The average shelf life of their products will average six weeks or longer. The second category would cover the perishable bakery products with an average shelf life of one week or less, such as bread, cake, and pastry products.

By using these two common denominators the industry can be broken down into relatively homogeneous groups. By far the largest of these groups in terms of tonnage produced or dollar volume of sales would, of course, be the wholesale or manufacturer type bakeries producing perishable bakery products. This is the segment of the baking industry with which this study is concerned.

There are many problems facing the wholesale baker such as declining per capita consumption, increasing production costs and increasing distribution costs. This is not a complete listing, but it includes the three greatest problems facing the industry today.

The decline in per capita consumption is not as serious as it might be because we have enjoyed a tremendous population expansion. This rapid increase in population is giving the baker an increasing demand in spite of the decline in per capita consumption. Thus, he has a chance to work out a solution to this problem before it endangers his chances for survival.

The increase in production costs is being relieved to a very large extent through technological improvements in methods and equipment. The industry has developed high speed automated equipment as well as new processes such as the "continuous mix" which have offset, to a large extent, the increases in labor costs. High speed automated equipment requires the expenditure of large amounts of capital in fixed assets. This is a serious problem but not the most serious.

The problem pressing the wholesaler baker is one of distribution costs. Distribution costs are increasing faster than is productivity or sales. As a result, the average distribution costs in the wholesale baking industry today are in excess of 30 per cent of the sales dollar.[1] Some of the contributing factors to this increase from 21

---

[1]Mr. George Graf, General Manager, Quality Bakers of America, U. S., Congress, Senate, Subcommittee of the Judiciary, Hearings, Study of Administered Prices in the Bread Industry, 86th Congr., 1st Sess., 1959, p. 6067.

per cent in 1947 to 30 per cent plus in 1958 are salesmen's pay per 100 pounds of product up 109.1 per cent, stales loss per 100 pounds of product up 707.7 per cent, vehicle costs per 100 pounds of product up 124 per cent, pounds delivered per route per week down 30.1 per cent.[1]

According to the 1954 Census of Manufacturers, the average wholesale price of bread was 15.2 cents per pound.[2] The net profit margins for the eighteen largest wholesale baking companies, operating 417 plants in 1955, was 3.6 per cent.[3] The return on investment averaged less than 10 per cent for these same companies. This data is given merely to emphasize the seriousness of the industry's illness.

Most of the modern bakeries of today, if able to operate at optimum capacity, can produce one pound loaves of white pan bread at seven cents per pound or less. This would include the costs of production, slicing, and wrapping the loaf in wax paper, cellophane, or polyfilm. The distribution costs of most modern bakeries, however, are averaging five cents per pound or more, and the production costs are averaging nine cents per pound or more.

If the artificial barriers were removed, it would be possible to produce, distribute, and sell one pound

---

[1] _Ibid_.

[2] U. S. Department of Commerce, _Census of Manufacturers_, Bakery Products, Bulletin MC20E, Table 6A.

[3] _Cost and Margin Trends in the Baking Industry_, Anheuser-Busch Survey of Bread Prices, 1954.

loaves of white pan bread at a retail price of 10 cents per pound.[1]

In the past, many studies have been made by most of the major baking companies on the subject of specific cost factors. These studies and cost reduction drives have been aimed at such items as: stale returns, gas mileage, improvement of space and positions, route layout, and many others. These are operational studies on a local level and are rarely documented. For the most part, they are aimed at the surface symptoms such as stale returns and do not penetrate to the basic causal factors such as service restrictions. By investigating the causal factors of the wholesale bakers' distribution costs, one might then be in a position to recommend methods or strategies for increasing efficiencies.

An investigation of wholesale bakers' distribution methods shows that their products are sold primarily through retail food stores. These products are highly perishable and are usually delivered to the retail food store daily by the wholesale bakers' salesmen.

---

[1]"Two University of Nebraska agricultural economists are preparing a report for the U. S. Department of Agriculture to show that the baking industry, under optimum conditions, could produce a 16-ounce loaf of bread to retail at 10 cents a loaf in supermarkets of the country. Economists Richard Walsh and Bert Evans said the report will be submitted in June or July.

"USDA contracted with the University of Nebraska in 1957 to do a study on 'price-cost behavior in bread markets.' The report will not be made public through headquarters of the U. S. Secretary of Agriculture, the economists explained, but will be published in the University's Farm and Ranch Journal." Supermarket News, March 12, 1962, p. 45.

The operator of the retail food store acts as a control valve regulating the flow of these bakery products from the wholesale baker to the consumer. As the operator of the retail food store regulates or restricts this flow, he has a direct effect on the wholesale baker. If the operator of the retail food store places restrictions on this flow, the wholesale baker will have to use more pressure to get the same volume of goods through the valve or store. This additional pressure may be in many forms such as additional services, increased advertising, discounts, shelf rental, and many others. Whatever form it takes, it will increase costs of distribution, both on a unit and a total cost basis.

Because the bulk of bakery products are distributed through food industry channels not owned or controlled by the bakers themselves, it is necessary to consider the total food industry patterns in analyzing bakery delivery methods. Thus, at least from the shipping dock onward, we find bakery distribution inseparable from the total food distribution picture. It follows that what happens to the food industry such as vertical integration and horizontal integration and concentration will probably be happening to the baking industry as well, though not necessarily to the same degree.

In making this analysis the development of the baking industry will be traced in Chapter I and then a brief review of the evolution of the food wholesaling and retailing industry in Chapter II. This will set the stage for a review of distribution practices in Chapter III and a study of the marketing problems and practices in the wholesale baking industry in Chapter IV. It is necessary to review the historical development in the first two chapters so that the distribution and marketing practices may be more easily understood.

Problem

The problem of this study is twofold: (1) to determine the methods used by the retail food merchant to regulate or control the flow of bakery goods from the producer to the consumer, and (2) to determine the costs of overcoming barriers to entry to retail stores incurred by the countervailing strategies of the wholesale baker.

This will require answers to questions such as:

1. Has the regulation or control of the flow of bakery goods by the retail food merchant resulted in equal or better quality products at equal or lower costs to the consumer?
2. Has there been a shift in the balance of power between the wholesale baker and the retailer?
3. Has this regulation or control fostered unhealthy and possibly illegal trade practices?
4. Are there other factors such as excess capacity or governmental intervention that have had an important bearing on the health of the industry?

Objective

The primary purpose of this study is to analyze the historical development of the wholesale baking industry and the retail food industry in an attempt to understand current practices and their effect as causal factors on bakery distribution costs and to determine possible alternative actions.

Hypothesis

It is hypothesized that--The wholesale bakers' opportunity to sell is being restricted by current retail buying practices and they must seek alternative outlets or systems of distribution to survive.

The Approach

Historical, descriptive-analytical methods will be used in presenting and analyzing the facts as they bear on or relate to the verification or non-verification of the hypothesis.

Because of the shortage of detailed data and the reluctance of those close to the industry to allow themselves to be quoted concerning trade practices, a great deal of reliance has been placed on testimony before the Kefauver Committee[1] and Federal Trade Commission cases.

The wholesale baker and the retail food store operator are dependent one upon the other, and each performs a

---

[1]The Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary of the U. S. Senate.

valuable service for the other. It is hoped that the final solution will strengthen this relationship and enable the two parts of the food industry to work more closely together for mutual benefit.

CHAPTER I

DEVELOPMENT AND STRUCTURE OF THE BAKING INDUSTRY

The commercial baking industry has had a tremendous growth during the last 100 years. This growth has encompassed all facets of the industry from the development of thousands of small retail bakeries specializing primarily in variety breads and fine pastries to the complementing development of the modern industrial bakeries with their large-scale operations.

In the early stages as the demand for bakers' bread increased, it was met by an increase in the number of bakeries, but this was not enough. Between 1850 and 1900 the development of better ovens, fuel, means of firing the ovens, mixing, dividing, and moulding of bread made possible the industrial bakers.[1]

Technological Developments

There were greater improvements in baking technology during these fifty years than in the previous 1500 years combined.[2] The ancient Peel oven was not designed for

---

[1]William G. Panschar, Baking in American, Vol. I: Economic Development (Evanston, Illinois: Northwestern Press, 1956), p. 55.

[2]Ibid.

continuous baking, and that was one of the most serious problems. During the 1870's an indirect continuous firing Peel oven was developed and this temporarily solved the problem.

The next major development was the reel-type oven which operated on the same principle as the ferris wheel. It worked well for the biscuit and cracker bakers but not too well for bread. There were numerous modifications made on these basic ovens, but none were satisfactory, and it was evident that an altogether new type would have to be developed. The next major improvements were the traveling hearth or tray ovens and the automatic controls.

As a result of continuous research and development by the industry and its suppliers, the last fifty years have seen tremendous changes in baking technology and equipment. A modern bakery today can produce 7,500-12,000 pounds of bread per hour with only 12 to 15 bakers and helpers. This type of bakery is not uncommon.

<u>Development in Distribution</u>

With the industrialization of bread production a new pattern of distribution had to be developed. The baker could no longer sell all of his production in his retail shop. The larger and more progressive bakeries inaugurated deliveries to grocery stores. This was the most precedent shattering move of all.[1] There were numerous other

[1]*Ibid.*, 71.

innovations such as drop shipments, institutional outlets, house to house distribution, and multi-unit retailing. These channels of distribution accounted for only a small share of the total industry sales today. These channels of distribution were utilized by the baker to encourage the housewife to change over to baker's bread.

As the baker moved into these new channels of distribution he was confronted with a multitude of problems. He was now a manager, and the problems of finance, industrial relations, and marketing took on a new light and increased in importance. An effective delivery system required the purchase of horses and wagons, outlay for stables, feed, accessory equipment, the hiring of men to drive the wagons, and men to take care of the horses and equipment. The baker was also forced to adopt a system of consignment selling and crediting the grocer with any unsold bread.[1] Since he was now selling at wholesale he had to increase volume and lower costs because he was getting a lower price for his bread.

To meet these problems he had to buy new and larger equipment designed especially for baking bread. The equipment formerly used to produce a wide variety of fancy cakes and specialty goods was not satisfactory for volume production of bread. The bakers began merging as a means of obtaining capital necessary for this new type of operation. These bakers were now becoming highly specialized in bread production.

---

[1]Ibid., 74.

Other bakers specialized in providing the many specialty items as well as pies and cakes for hotel and restaurant trade. These bakers also specialized in hard rolls, French bread, rye bread, and other hard crusted breads, as well as the conventional white bread. This market was very small, probably less than 10 per cent, compared to the grocery service and only a relatively few of the bakers were able to find sufficient volume to warrant specializing in this line.

Today, however, with the tremendous increase in volume in the food service industry this market is being catered to more and more by the conventional wholesale baker. The "food service industry" consists primarily of thousands of restaurants, hamburger drive-ins, in-plant feeding units, intransit feeding operations of airlines and railroads, cafeterias, and the like. Such institutions as the hamburger drive-in chains are considered choice business by quite a growing number of the conventional bakers. These institutions require a great volume and are frequently more profitable to the baker than are large supermarkets. It is not unusual for a hamburger drive-in to use as much as $400 per week on a yearly average of one type of bun with no returns and a minimum of service. They are highly efficient mass merchandisers.

Another group of bakers started house to house delivery. This type of operation has survived in a number of large cities over the country such as Los Angeles, Dallas, St. Louis, Cleveland, Indianapolis, Detroit, and New York City. There has been no great growth in this area because of the many unsolved problems inherent to this type of distribution. The house to house baker has to have a much larger sales force and, of course, a very large investment in delivery equipment. He must also grant credit to the housewife and even with strict controls, the losses from this activity can be very costly. This type of operation, even though it develops the greatest degree of consumer loyalty, has, by far, the highest selling costs.

The growth in the baking industry can be summed up by looking at a few statistics. In 1849 there were 2,027 establishments doing $13,294,000. In 1958 there were 17,886 establishments with shipments values at $4,741,979,000.[1] In 1954 approximately 5,000 wholesale bakers produced 7,016,880,000 pounds of white bread, and approximately 175 grocery chain bakeries produced 762,171,000 pounds of white bread. In 1958 there were 5,199 wholesale bakeries producing 6,536,376,000 pounds valued at $3,130,415,000. One hundred and seventy-eight grocery chain bakeries produced 924,719,000 pounds valued at $382,499,000.[2]

Until 1900 the growth had been primarily by internal expansion with very little expansion by means of mergers or

---

[1]U. S. Dept. of Commerce, Census of Manufacturers (Washington, D. C.: U. S. Government Printing Office, 1958), p. 20 E12.

[2]*Ibid.*

purchase. From 1900 to 1930 there was a tremendous amount of expansion primarily through mergers. These mergers were of two types--the local consolidations and the multi-market mergers.

> The American Baking Company, formed in 1907, was one of the earliest examples of local mergers. Stock promoters had a hand in the negotiations. Seven firms--each with its own plant--came into the new company. The basic aim of its founders was simply to reduce competition and eliminate unfair trade practices that had raised havoc in the St. Louis market.

Within less than twenty years they had closed down five of the plants and were only operating two. While these local mergers reduced competition, the advantage was not of long duration. New competitors frequently established retail bakeries. They gained easy entry and the market would be in turmoil again.

There were a number of advantages to the multi-market mergers such as greater stability of total market, financial strength, pooling of talent, greater buying power, and the benefits of regional or national advertising. These mergers were made with emphasis on broadening the market base with very little consideration given to production or manufacturing efficiency.

Mr. William B. Ward, regarded as the most colorful and influential individual in the multi-market mergers, created three of the largest baking companies that exist in the country today. They are Continental Baking Company, General Baking Company, and the Ward Baking Company. Mr. Ward came

---

[1]Panschar, op. cit., p. 146.

from a family of bakers and had three major assets: money, promotional ability, and sound bakery management plans.

His first major promotion was the United Bakeries Corporation in 1922 with nineteen bakeries. He added 18 more in less than two years and by 1924 had over 40 bakeries in 30 cities.

In 1923 he started still another holding company known as Ward Baking Corporation with 17 bakeries.

In late 1924 he organized the Continental Baking Corporation of Maryland as a holding company; it was chartered to enter baking in all of its branches and also flour milling and other lines of food manufacture. Continental's first move was to acquire the United Bakeries Corporation, and it then began a vigorous campaign of acquisition. By 1926 Continental controlled 91 plants in the United States, nine in Canada, and was the largest baking corporation in America.

In October of 1925 Ward formed the General Baking Corporation of Maryland with 33 bakeries and by 1926 had increased to 42 bakeries in 32 cities.

In 1926 Ward chartered the Ward Food Products Corporation as a super holding company. Its announced purpose was to bring Continental, General, and Ward Baking Companies under one banner. This huge company would have covered approximately 20 per cent of the commerical bread production in the United States. On February 8, 1926, the Federal government filed anti-trust proceedings against Ward and his empire. On April 3, 1926, a consent decree was entered into, and the giant merger was completely blocked, and the Ward Food Products Corporation lost its charter. Mr. Ward died shortly after this and thus brought to an end the era of great mergers in the baking industry. There have been several changes in the charters and structure of these companies, but they remain three of the largest baking companies in America today.[1]

There were other developments such as the service companies which might be called a voluntary chain of independents, and some of these still exist today. However, the local nature of the bakery operation prevents any effective concentration by large companies and is one of the big problems of the industry today.

The local nature of the bakery operation can be shown by the size of its relevant marketing area. The relevant marketing area for a wholesale bread bakery has a perimeter of about 60 miles and certainly no more than 100 miles around each plant.[2]

This relatively small market area, combined with the large number of wholesale baking companies, 5470 companies in 1954, plus the fact that the majority of these firms operate small, single unit plants employing less than twenty employees,[3] makes the industry vulnerable to any restrictive buying practices by its customers.

---

[1] Ibid., 199.

[2] U. S. Congress, Senate, Subcommittee of the Judiciary, Report, Study of Administered Prices in the Bread Industry, 86th Cong., 2nd Sess., 1960, p. 119.

[3] Ibid., 132.

CHAPTER II

ENTRY OF THE CHAINS, THEIR BUYING PRACTICES AND RESTRICTIONS

The growth and development of the wholesale baker is closely related to the growth and development of the retail food store and the chain store. The wholesale baker represented less than 25 per cent of the baking industry's total sales in 1900.[1] By 1930 wholesale-to-grocery delivery had grown until it accounted for over 50 per cent of the total bakery products' sales.[2]

The retail food store has developed into the single most important channel of distribution for the wholesale baker. By studying the growth and structure of the retail food industry, we can obtain a clearer picture of the effects of its buying practices, and other influences, on the wholesale baking industry.

The growth and development of the food industry in America, particularly as represented by the retail food store, may be arbitrarily divided into five stages.[3] It has

---

[1]Panschar, op. cit., p. 128.

[2]Ibid.

[3]Willard F. Mueller and Leon Garoian, Changes in the Market Structure of Grocery Retailing (Madison, Wisconsin: The University of Wisconsin Press, 1961), p. 8.

been a continual evolution that, in some respects, has gone full circle, from the early day general store to its modern counterpart, the discount house.

The earlier stores were general stores stocking farm tools and equipment, mercantile goods, and staple foods.[1] These early stores did not extend credit and furnished few services. The merchandise was piled high and was frequently behind counters or in a stock room. You had to ask the clerk to bring out items for you to inspect; you were not allowed to serve yourself.

Later these general stores began adding a few services such as credit and some delivery, and they revamped their stores so that some self-service was possible.

The second stage of the development was the specialized grocery store and the meat market.[2] The grocery store and the meat markets had each specialized in distinct food lines and had few non-food items. The grocery store carried a broad line of staple foods, and it carried a much broader assortment of perishables than the general store. The meat market, of course, specialized in meat products. The meat market carried a broad line of fresh and smoked meats, as well as some canned meat products. Generally, these meat markets would handle a limited line of fish products, either fresh, salted, smoked, or, in some cases, canned.

---

[1] *Ibid.*, 11.

[2] *Ibid.*

These stores added a few more services particularly an extension of credit on a limited basis and a delivery service. They were still on a clerk service basis with very little self-service.

The third stage was the self-service development.[1] This innovation was started around 1900 and by 1912 a few retailers in Southern California were advertising and referring to their stores as "self-service" operations.[2] These stores were not completely self-service. They still retained clerk service in certain sections of their stores. By 1920 the self-service operation was firmly established and accepted by both consumers and grocers.

During this third stage there was another development of major impact--the combination stores.[3] The combination store brought together groceries, meats, produce, and dairy products all in the same store. In some stores the various departments were leased out, and in others there was only one owner.

The fourth stage might be called the era of the supermarkets. The supermarket was the result of combining the self-service and combination store into one retail unit.[4]

---

[1] Ibid.

[2] Ibid.

[3] Ibid.

[4] Ibid.

Although the origin of the term "supermarket" is obscure, the first use of the term in a corporate or firm name is associated with Albers Supermarket, Incorporated.[1] Albers Supermarket started operations in Cincinnati in November, 1933. Since that time the supermarket operation has grown and spread from border to border. You can find supermarkets today in almost every city and town in the country.

In 1932 there were 300 supermarkets and by 1958 their number increased to 29,920 and accounted for 68 per cent of all food sales.[2]

The fifth stage of development was the addition of non-food lines to the supermarket and the development of super-supermarkets called discount houses.

The expansion into non-food lines and to larger supermarkets has moved rapidly since 1955. There are very few supermarkets today that do not have non-food sections and a supermarket with 15-20,000 square feet of floor space is common.

The so-called discount house of today is common to all major cities and could be described as a shopping center under one roof. These giant supermarkets frequently have 200,000 square feet of floor space or more. In these stores you find as much as 80-90 per cent of the floor space devoted to non-food lines.

---

[1] Ibid.

[2] Ibid.

Not only do these discount houses handle food and non-food items, they may also have service departments such as barber shops and beauty salons. This broad variety of merchandise and service truly makes the modern discount house a shopping center under one roof.

The grocery and combination stores numbered 260,050 in 1960 and had sales of $52.6 billion.[1] Based on "household population" this amounted to average per capita sales of $324 in 1960.[2] Of these sales, manufacturers' advertised brands accounted for 70 per cent of all grocery purchases in 1960.[3] In spite of a tremendous amount of emphasis on private or controlled brands by the various groups, the manufacturers' advertised brands were still holding their dominant position.

The period 1900 to 1960 has been a period of vertical integration in the food industry. During this period there has also been a strong shift toward centralization as the various types of chain stores were formed and developed.

There is a close correlation between the degree of integration and control and the manner that a group handles its bakery products department. This integration has been accomplished in two major ways--contract and ownership. For

---

[1]Robert W. Mueller, Facts in Grocery Distribution (28th ed.; New York: Progressive Grocer, 1961), p. 1.

[2]Ibid.

[3]Mueller and Garoian, op. cit., pp. 72-73.

example, by 1920 Kroger operated 14 manufacturing plants consisting of seven bakeries, two meat plants, a preserve plant, and four other food processing and packing plants. A & P, Grand Union, American Stores, and Jewel Tea had also integrated vertically by 1920. In fact, the Federal Trade Commission found that during the 1929-1932 period 13 grocery and meat chains and 12 grocery chains operated manufacturing plants.[1] Although these 25 chains represented only 12 per cent of all grocery and meat chains and specialized grocery chains reporting to the F. T. C., they accounted for 91.6 per cent of the total sales of the reporting chains.

By 1958, 51 out of 165 grocery chains reporting to the F. T. C.'s food inquiry operated 326 food manufacturing plants producing $1.3 billion in sales. Forty-five chains operated 147 bakeries with sales of $379.5 million. In 1958 the value of shipments of chain bakeries was 39.4 per cent as great as the estimated wholesale bakery sales of all chain stores.[2]

The retail food industry is not only the largest customer of the wholesale baker but is now a competitor as well. As a competitor of the wholesale baker the chain store is faced with problems of distribution himself. Whereas the wholesale baker considers all of the retail food stores in his market area as potential customers, the chain store

---

[1] Ibid., 73.

[2] Ibid., 75.

bakery is restricted, at least by choice, to members of its own chain in most instances.

The retail food stores of today may be classified in four major groups: the corporate chain, voluntary chain, cooperative chain, and the independents. Each group has handled its bakery products differently.

The corporate chains tend to own and operate their own bakeries. As a means of operating these plants as near capacity as possible, the corporate chains tend to restrict the sales potential of the wholesale bakers by artificical barriers such as space and service restrictions.

The voluntary chains tend to buy their private or controlled label bakery products on a contract basis from wholesale bakers. Generally, the contract will establish artificial barriers to restrict the sales potential of all wholesale bakers who are not a party thereof. An example of this would be that the best selling position and 40 per cent of the space on the bread rack would be allocated to the private label. The second best position and 30 per cent of the space on the bread rack would be allocated to the wholesale baker who has the contract for producing the private label. The remaining 30 per cent of the space would be allocated in some manner to all of the other wholesale bakers.

This type of arrangement is usually made by the voluntary group wholesaler and most of the profit advantages go to him. As a result, the voluntary members frequently choose to ignore the wholesaler's suggestions and allocate the space and positions in whatever manner they see fit. The voluntary group wholesaler frequently does not have the power to force the members to comply against their wishes.

The cooperative groups also tend to buy their private label or controlled label bakery products from a wholesale baker by contract. The cooperative group has a stronger appeal to its members, than does the voluntary, and thus has better control. This appeal is the allocation of the rebates or overcharges to the members periodically. The cooperative members thus enjoy the major portion of the additional profits obtained by the private label contract.

The independents tend to rely more on the whole bakers and, in general, do not have private or controlled label bakery products. The major exception to this is that the independents have led the move toward in-store bakery departments specializing in the premium quality pies, cakes, and pastry.

Summary

In summation of this chapter we find that the wholesale baker's best customer is frequently his strongest competitor as well. Where the typical wholesale bakery is a small, independent operation, its customers are generally organized as buying groups or as chains. The nature of the wholesale baker's product, corporate size, market area, and dependence upon the retail food store for distribution to the ultimate consumer makes him relatively defenseless when faced by artificial barriers or restrictions from his organized customers.

In Chapter III, the distribution methods of the wholesaler baker, will be discussed so that the restrictions on space and positions, et cetera, and their effect on distribution can be more clearly understood.

CHAPTER III

DISTRIBUTION OF BAKERY PRODUCTS

The high perishability, bulkiness, and extreme fragility of bakery products dictate the distribution methods employed and generally limit commercial bakeries to a local market. The frequency of bread purchase, the great variety of bakery products demanded by consumers, the patterns of brand loyalty, and other demand factors all play a part in the several ways bakeries are organized to distribute the output of their plants. In addition, the desires of intermediate distributors such as hotels, restaurants, and retail food stores must be considered.[1]

The critical importance of certain changes in food distribution must be understood before the methods of distribution can be analyzed. The organization and operation of the retail food store are facts and conditions over which the bakers have little or no control since baked goods are only a small share, usually five per cent or less, of the total food store volume. The food store influence is not static but evolves over time and is in a constant state of flux, a fact of particular significance to the baker.

---

[1]Charles C. Slater, Baking in America, Vol. II: Market Organization and Competition (Evanston, Illinois: Northwestern University Press, 1956), p. 103.

Two major factors have had tremendous influence on both the retail food store and the baker--they are the automobile and refrigeration. The automobile has given the consumer much greater mobility, and, combined with refrigerators and freezers at home, have given the consumer much wider choice with less frequent shopping. Their impact is of importance to us as we consider the effects on retail food stores and the changing share of business between the independents and chain stores.

During the 1930's the chain stores were able to maintain a constantly expanding share of the market. However, during the war years of 1941-1945 the chains lost considerable ground to the independents. Since 1945 the chains again have increased their share.[1]

During the war years the independents shifted rapidly to the self-service type of operation. In 1941 less than 25 per cent were self-service whereas by 1952 over 75 per cent were self-service.[2] The advent of self-service has forced the wholesale baker to make drastic changes in his distribution practices. Prior to self-service the consumer would order by brand name. If she failed to do so the order filler would give her whichever brand he favored. The result was that the wholesale baker concentrated on advertising his

---

[1]Progressive Grocer, "21st Annual Survey" (New York: Progressive Grocer, January, 1954), p. 3.

[2]Slater, op. cit., p. 105.

brand name and placed great emphasis on gaining the favor of the order fillers by personal sales techniques.

Self-service changed this because the consumer was forced to select his choice from a display of several brands. The psychology of mass display, package appeal, and other merchandising techniques assumed greater importance.

Both chains and independents have shifted sharply in the average size of store and dollar volume. This sharp increase in size and volume per store unit has had considerable effect on the relationship between wholesale and chain store brands or private label bread sales. The effects will be more apparent as we review the ways that bakery products are distributed.

There are four major methods of getting commercial bakery products to consumers:

1. Selling bakery products through retail food stores.
2. Selling bakery products direct with home delivery (house to house bakery operation).
3. Selling bakery products through specialized retail shops (single and multi outlet retail bake shops).
4. Selling bakery products to institutions, restaurants, et cetera.

Bakery products are only one of many lines of merchandise carried by the retail food store or grocer and there are distinct limits to the influence which baking companies can have on how grocery stores handle these perishable foods. In grocery stores all over the country consumers find a nearly uniform display of packaged bread and bakery products.

The duPont survey[1] showed that in supermarkets an average of ninety-seven different packaged backery items were displayed in an average space of 212 square feet. These 97 different items included brand variations as well as product differences. The same survey showed that the average customer spent only 35 seconds shopping the bakery section. Obviously, this array of 97 different items must compete for visual attention. Hence, the position on the shelf in relation to traffic flow, the allocation of space (mass display), the package design and the arrangement of the display are vital control factors in the selling of bakery products. The grocers' increased awareness of the value of these factors has had a strong influence on the wholesale bakers' operations.

Wholesale bakers use driver salesmen who place the products on the grocer's shelves. These salesmen, due to the limited space and the high turnover of bakery products, may call back several times a day to restock the shelves and keep the display in an attractive selling condition.

In contrast, the chain store bakery delivers its products on the organization's own trucks along with other types of merchandise and the store's clerks then display the bakery goods and keep the shelves stocked.

The wholesale bakery sells its products through the grocery on a consignment basis, whereas, the products

---

[1] E. I. du Pont de Nemours and Co., Every Second Counts, A Study of Consumer Bakery Shopping Habits (Wilmington: E. I. du Pont de Nemours and Co., 1953), p. 4.

received from the chain store bakery cannot be returned in most cases. Either the grocer sells the chain store bakery products or he takes the resulting loss on unsold goods.

The chain store grocer is under pressure from his superiors to sell certain percentages of the chain store's own brand of bakery products. In order for him to do so the grocer, who is aware of the selling factors, will naturally, if not by direct order, place the private or controlled label bakery goods in the preferred position with sufficient space to make sure that they will sell first. This has resulted in certain chains taking 80 to 90 per cent of the space for their own brands and leaving a maximun of 10 to 20 per cent for outside brands. The chain store managers generally agree that this practice assures them of guaranteed sale of their own products but it also causes them to lose in total bakery goods volume and, in a number of cases, causes them to lose customers where brand preference is strong.

The reason for the wholesale bakers' delivery, consignment, and pick-up of unsold merchandise practices dates back some 60 years. Around 1900, when the grocers were of the opinion that bread would not sell, the bakers' earliest arrangements were exclusive dealerships. The baker would supply a glass case for the display of his products and reclaim any unsold merchandise, giving the grocer full credit. This arrangement persuaded grocers to become bread sellers and was and still is the best way of assuring the grocer and his customers of fresh bakery products. The assurance of freshness and quality is the best way for the baker to protect his name and reputation.

This system where the grocer has little expense, except for space, fostered the development of several bakeries servicing each grocery store and thus the bargaining strength now lies with the grocer.

The competition among wholesale bakeries to maintain their shelf position and space--vital factors for their survival--has produced several of the key marketing problems of the industry. This fierce competition among the wholesale bakers plus the pressure on and desire of the chain store grocer to sell his own labeled goods has created an unhealthy situation. It is a situation fraught with many economic and legal ramifications, particularly for the grocer who is greedy and opportunistic.

House to House Delivery

Because their salesmen meet the ultimate consumer, the house to house bakers must be prepared to satisfy all the needs of their customers for bakery goods.

House to house distribution is feasible because of the frequency with which bakery products must be purchased by the average household. Home freezers and refrigerators can prolong the life of bakery products, but home service continues to be an important form of distribution today. By offering the housewife a full line of bakery products and regular service, as well as short-term credit of a week or two, the house to house bakery has carved out a market based primarily on service. This service, plus the potent factor of being able to sell direct to the consumer, gives the house to house baker advantages that no other distribution system can offer.

The house to house baker normally prices his bread at the prevailing retail price charged by the grocers. Therefore, he has two reasons for producing a broad product line: (1) He wants to satisfy all of the customers' desires for bakery products, and (2) He wants to sell as much as he can of the higher priced and more profitable items such as cakes, pies, and fancy pastry. However, he cannot compete fully with the retail bake shop because of the rough handling the products receive in his delivery trucks. The more delicate and fragile items cannot stand this treatment, and he cannot economically handle those items that require refrigeration.

There are several problems unique to this type of distribution that seriously limit its expansion: (1) It requires a large number of route salesmen and delivery trucks. It is not a simple task to obtain the quality and quantity of manpower necessary for a successful operation. Helms Baking Company in Los Angeles and Manor Baking Company in Kansas City, both of which are house to house bakers, estimate that they have a minimum of 10 per cent of their routes open at all times because of turnover. They must maintain an intensive recruiting and training program continually, and this is costly.

Some of the reasons for this problem are that it is hard physical work. The salesmen are out in the open in all kinds of weather, and the pay is relatively low for route work. The average house to house bakery salesman will earn some 20-25 per cent less than the average wholesale bakery salesman on a weekly average.

(2) The extension of credit to the consumer is a constant headache because it requires a tremendous amount of bookkeeping and a loss from bad accounts runs high. The average house to house route will have some 250 to 300 or more customers and over 75 per cent of these will be on credit.

(3) There are also the problems that develop between the route salesmen and the female customers that cause unusual costs for the house to house baker.

All of these factors and others sum up to make the house to house operation costly and one that has appealed to fewer and fewer bakers over the years.

Retail Bake Shop

The third method of distribution is the retail bake shop. This may be the single unit shop or the multi unit operation operating either from a central bakery with multiple sales outlets or one with multiple producing units with on premise sales area in each unit.

Because of the low volume and broad product line inherent in this type of operation, they are rarely equipped for high speed machine-type production. These operators have changed very little over the years except to seek better traffic locations. As a result, many retail bake shop operators have leased selling space in modern supermarkets, discount houses, and department stores. Their production costs are higher due to the lack of mechanization, but the distribution costs are probably the lowest in the industry.

Distribution to Food Service Institutions

The fourth method of distribution--to institutions, restaurants, hospitals, schools, and others is utilized by all three groups previously mentioned. The wholesale baker, house to house baker, and retail bakeries all try to fill up their surplus capacity by competing for the institutional trade. Because of this intense price competition, there are very few purely institutional bakers. The distribution methods are quite similar to the wholesale to grocery store methods except in product requirements.

This brief review of the distribution methods has pointed out a number of symptoms and a few causal factors concerning distribution costs. Perhaps by examining the mechanics of the wholesale bakers' distribution methods additional factors may be discovered.

The wholesale bakers' distribution is centered in the driver salesman and his truck. The larger bakery may well enjoy economies of scale to an appreciable extent in production savings. The larger bakeries' economies of scale are insignificant in distribution except where the net volume of goods sold by the individual salesman can be increased.

The individual salesman orders the goods he expects to sell two or more days in advance. He checks the goods after they have been loaded on his truck and assumes financial responsibility for them. He leaves the bakery early in the morning and starts serving the grocery stores on his route, which is usually a rather compact, contiguous geographic area. He first checks the rack in the bakery department of the store and gives the grocer credit for any stale merchandise and then restocks the shelves. He then collects from the grocer or gets his invoice signed in the case of charge accounts and then drives to the next store where he repeats this procedure. After he has completed his first round of stops he doubles back and makes additional calls on the grocers until late afternoon. He then returns to the bakery, unloads his truck, turns in the stale merchandise and receives credit for same. The salesman then makes settlement for his order of merchandise and makes out his next order.

Due to the intense competition between the wholesale bakers for the very limited space and positions in the grocery stores, the salesmen may be called upon to perform a number of additional duties such as: present sales promotions to grocers, present new products to grocers and, by use of various sales tools, try to gain selling advantages for his merchandise.

The grocer may use this intense competition as a means to play one salesman against the other with the selling advantage going to the salesman who gives the most service or other incentives. This cuts down the salesman's productive selling time and potential because he has to spend so much of his time protecting his existing business. As a result, distribution costs go up.

They go up because the average salesman is on a base salary plus a commission. For example, a salesman may receive $100 per week on the first $500 of his net sales and eight per cent on all sales in excess of $500 per week. As a result, on $500 net sales his salary cost would be 20 per cent, but on $1,000 net sales his total wage cost would only be 14 per cent. This points out the importance of increasing the productive efficiency of the individual route salesman if distribution costs are to be reduced.

In addition to the route salesmen in operations of five or six route or more, the need for route supervisors, extra men for emergencies, and sales managers becomes more imperative.

Summary

The wholesale or commercial bakers utilize several different methods of distribution, and any one baker may use one or a combination of two or more of these methods.

Because of the nature of the product and the relatively small purchases made by the consumer at one time, the retail food store has developed as the prime distributor for bakery products. The development of fewer and larger retail food stores has reduced the amount of display space available to the baker. This has also increased the rate of turnover of product per linear foot of shelf space, but the advent of self-service has placed a premium on position and mass display and distorts this rate of turnover. If four bakers had equal space on a given rack which had a strong first selling position, the baker who had the first position could very easily sell two or three times as much merchandise as could the baker who had fourth position.

The route salesmen type of distribution is costly and restrictions affecting his efficiency may increase the baker's distribution costs sharply.

In Chapter IV the specific restrictions or artificial barriers will be discussed in more detail.

CHAPTER IV

MARKETING PROBLEMS AND TRADE PRACTICES

To a large extent the discussion of trade practices in this chapter will have to come from personal observations made by the author as he has worked and studied in the wholesale baking industry. These observations have been made during the last eight years and are primarily from the southwestern area of the United States.

In the previous chapters we have observed several factors affecting increased distribution costs incurred by the wholesale baker. It might be well to recapitulate these and to look at the practices that have evolved from them.

First, the bakers' initial methods of introducing bakery products to the grocery store some sixty years ago have persisted to the present. These include the furnishing of racks, delivery to the store daily, displaying and merchandising the bakery products in the store, and the consignment method of selling.

Second, the limited relevant market area requires the wholesaler baker to operate and fight for survival in a rather rigidly defined geographic area. These boundaries have been expanded, in many instances, by use of drop stations. A drop station operation is one where route salesmen are stationed at a terminal point some considerable distance away from the bakery; a distance of 100-150 miles is not uncommon. The bakery products are hauled by transport trucks to the terminal, the route men transfer and break down the load according to their individual orders and proceed to distribute the merchandise to their customers. The drop station is very expensive to operate in terms of distribution costs, but it may provide sufficient volume to lower total production costs appreciably. This trade off of distribution costs for production savings may be the only practical route open to survival for a baker in a given area at a given time.

Third, the majority of the bakers are relatively small intra-state operators and are usually operating at 60 per cent or less of total capacity. This excess capacity and pressure of competition for survival frequently leads the baker to resort to unhealthy and, at times, extra legal trade practices. The result is that others follow suit and meet his competitive action, and the market is in a state of turmoil, either reducing or eliminating the profits of all the bakers concerned. Of course,when the large inter-state bakers become involved in meeting these trade practices such as discounts, space rental, et cetera, the Federal Trade Commission and the Justice Department usually make investigations and attempt corrective actions.

Fourth, the route salesmen are, for the most part, organized by the Teamsters Union and over the years have developed rigid and highly restrictive contracts. It is easy to say that the bakers should resist these contractual demands and only agree to demands that are economically feasible and practical. However, when faced with competition from the captive bakeries of the chain store groups and the long term or permanent loss of volume that would result from a strike, the baker usually chooses what he considers the lesser of two evils. He prefers to operate at or near a loss rather than be forced completely out of business just for the sake of a principle. These union restrictions have resulted in higher distribution costs and reduced the efficiency of the route man.

Fifth, the development of the chain store organization with centralization of buying and a "follow the leader" attitude on the part of most grocers has resulted in what might be termed oligopsony[1] power. In almost every market there is one food store group that is dominant and who is followed by the majority of the other grocers in the market in the acceptance or rejection of a baker's products. In effect, one buyer controls the baker's destiny as far as that particular market area is concerned. Since the leader usually has his own controlled label bakery products, he is interested in protecting the sales volume and profits of his

---

[1]Oligopsony is a market situation in which there are a few buyers of a particular resource which may or may not be differentiated. One buyer takes a large enough proportion of the total supply of the resource to be able to influence the market price of the resource. Richard H. Leftwich, The Price System and Resource Allocation (New York: Holt, Rinehart, and Winston, 1961), p. 306.

own merchandise and does not want any additional competition, if he can avoid it. As a last resort, the baker may make a deal that is very costly and will have no bearing on the consumer acceptance of his product except to get it into the stores so that the consumer can buy it. The baker may be forced to make such a deal just to keep his products in the store even though he has good consumer acceptance and a normal profit margin for the grocer. Again, it is not just the one store that is the problem. The problem is that to get into or stay in a given market, one generally has to get in and stay in the outlets of the leader.

This power of oligopsony has become a double-edged sword with the rapid growth of chain store bakeries and private or controlled label bakery products.

In a sense, the baker himself is responsible because he handed this power to the grocer some 50-60 years ago when he placed his dependence for distribution on the grocer.

Sixth, the perishability of bakery products has tended to keep the wholesale baker local in effect even though several of the baking companies are national in over-all scope.

Seventh, because the distributing arrangements for other foods must be accepted as a set of circumstances beyond the control of the baking industry, distribution of bread and other bakery products has developed an unusual pattern of techniques. Massive displays, both to assure the supplying of all customers and to attract customer attention to the product and brand have become customary. The stale loss that results from this method, while a problem for both chain store and wholesale bakeries, is far more serious for the latter. Retail food stores also set some standards in the handling quality of bakery products which limit their sale of fragile items, to those which can withstand fairly rough handling.

These factors make up a representative list of some of the basic marketing problems facing the wholesale baker today. These causal factors affect the wholesale baker indirectly and in combination through the trade practices which are rampant in the retail grocery and wholesale baking industries today. They are not new and do not appear to be unique to any one section of the country.

Some of these practices are:

1. Shelf space limitations
2. Shelf position limitiations
3. Service regulations
4. Product limitations
5. Promotion limitations
6. Discounts, et cetera
7. Price differentials

The grocer, as well as the baker, learned long ago with the advent of self-service that space and position on a bread rack were elements of survival for the wholesale baker.

The battle for survival for the wholesale baker has always been a tough one. It has been a battle against other wholesale bakers, home delivery bakers, the housewife who bakes, and more recently, the chain store bakery, the frozen food processor, and prepared mix processor. Of these competitors, the wholesale baker is currently least prepared to compete with the chain store bakery because of the power of oligopsony which the retail food store operator has.

It is an "accepted fact" that the grocers and, particularly the chain store operators whether corporate, cooperative, or voluntary, have the power of oligopsony, at least on a local market area. The questions are how much oligopsonistic power do they have and is this power used?

The exercise of the power of oligopsony in the form of the practices earlier stated in this chapter may be legal, in some instances, and illegal in others, and quasi or extra-legal in still others.

The Federal Trade Commission and the Kefauver Committee have investigated and currently are investigating the activities, practices, and relationships between the retail food store operators and members of the wholesale baking industry. It is quite possible that the current investigations by the F.T.C. may lead to more stringent legislation and/or more governmental regulation of these activities and relationships.

Mr. Graf of the Quality Bakers of America, an independent bakers voluntary cooperative, testified before the Kefauver Committee in 1959 that the concentration of buying power in the retail food field was fantastic. According to his calculations, only 972 buyers controlled the purchase of over 37 billion dollars in food products for the various chains. This represented some 67 per cent of the total purchases.[1]

He testified further about the prevalence of pressure from the grocers which he termed "hold-up demands for discounts or contributions," also pressure from grocers for "under the table payoffs for signs, shelf space, and positions."

Mr. Graf was under the impression that the practice of renting shelf or display space was commonly accepted practice in the cosmetic and cigarette industries.

Mr. R. N. Laughlin, President of Continental Baking Company, testified before the same committee that the chain stores were "our toughest competitors, as well as our best customers," and "If you don't sell chain stores today, it is difficult to do business at all because they control such a vast amount of the retail field."[2]

"During the period of time under discussion (1947-58), the chain store bakers entered into the field quite strongly, and as they began to build bakeries they also began to restrict the products which the wholesaler might sell. Or, if they did not restrict them by not handling them at all, they restricted the amount of space the wholesalers might have."[3]

---

[1]Senate Subcommittee of the Judiciary, Hearings, op. cit., 1959, p. 6047.

[2]Ibid., 6114.

[3]Ibid., 6112.

These restrictive practices need a closer examination so that we can have a better idea as to how they are used and the results of their use.

Shelf Space and Position Limitations

It is a common practice for a grocer to take the so-called first selling position on the bread rack and at least one-third of the shelf space for his own private or controlled label. In some chains they will restrict as much as 80-90 per cent of the space for their own label. The remaining space may be allocated to outside bakers in any one of a number of ways. The grocer may eliminate completely one or more of the outside bakers. This may be done arbitrarily or on the basis of sales records of these products or on the basis of who "offers" the best deal. This offer may be presented in a sealed bid, private negotiation, or a demand of a fixed percentage of sales or a demand for a fixed sum of cash or services. Where the elimination is arbitrary or on a basis of sales records, the bakers may buy their way back in, in this case, the offer may originate from either party and in a variety of forms. These restrictions require much more frequent servicing of the bread rack by the outside baker in order to maintain his volume.

Grocers who do not have a private or controlled label may utilize these methods of exacting a payment for space or positions.

Product Limitations

Other common practices of grocers with private or controlled labels is to eliminate many of the wholesaler's varieties, particularly in the major white bread lines. To meet this the wholesaler has resorted to the lesser volume variety items which increase his costs sharply.[1]

Other methods of product limitation are to restrict the types and methods of wrapping materials. Examples would be elimination or restriction of all items wrapped in cellophane, polyfilm, or poly bags. The grocer may require certain types of end seals on all outside bakery products, such as end seals showing retail price.

Service Limitations

If by restricting the position and amount of shelf space and/or the varieties of products the grocer has been unable to reduce the wholesaler's volume to the desired point, the grocer may then restrict the amount of bakery products that each outside baker may put in the store and the number of times that the salesmen may service and maintain the bakery products display rack.

The grocer may also require that route salesmen of the wholesalers service and maintain the display of private lebal merchandise, thus avoiding the expense of having his clerks stocking the private label bakery products.

---

[1] *Ibid.*, 612c.

The grocer may also require that the wholesalers provide manpower and materials for decorating the store, or for stocking shelves, et cetera during special promotions, store openings, or any other occasion.

The penalty for declining these privileges may well be the refusal to handle the baker's products or some other equally effective restriction.

Promotion Limitations

The grocer with private label or controlled label bakery products looks with disfavor at any proposal for the promotion of a wholesaler's products. If the product in question is one that competes directly with a private label item, the answer will usually be one of the following: "No," or "What is it worth?" or "It will cost you such and such." Some of the chains will allow competitive promotions as long as the wholesaler ties it in with the promotion of some private label or high profit item.

Price Differentials

The chain store operator normally sells his private or controlled label bakery products at a lower price than he does the wholesaler's products. Examples of the price differential as recorded during the Kefauver hearings in 1959 (page 6127) were:

> Utica, New York retail price September 1,1958--wholesale white bread one pound loaf--22.6¢ vs. private label at 16¢.
>
> Waterloo, Iowa retail price September 1,1958--wholesale white bread one pound loaf--20.5¢ vs. private label at 15¢.

During price wars the chain stores frequently cut the price of their private label to as low as five cents or ten cents per loaf while maintaining the wholesaler's products at regular retail price.

Since the grocer has complete control over the retail prices charged for the merchandise, the wholesaler is at his mercy. This is an extremely potent weapon that has caused many small bakers with rather limited working capital to go out of business.[1]

Discounts, Contributions, Et Cetera

These limitations or restrictions are closely intertwined with those restrictions previously discussed and additional discussion in this area is not needed except to state that rarely are these demands based on economic savings. These demands are frequently made by large organizations as well as small, opportunistic operators. For example, the Independent Grocers Alliance Distributing Company was found to have exacted and received either directly or indirectly brokerage fees, commissions, rebates, and other compensation in violation of the Robinson-Patman Act.[2]

Another example would be the Giant Food Shopping Center, Inc., which was found guilty of similar practices.[3]

---

[1] *Ibid.*, 6054.

[2] *Independent Grocers Alliance Distributing Company* *vs.* *Federal Trade Commission*, Vol. V, p. 524, 1949-55, comm. Harriette H. Esch.

[3] *Giant Food Shopping Center, Inc.*, *vs.* *Federal Trade Commission*, p. 2059, 1958-59.

Summary

The effect of these actions by the food chains can best be shown by looking at some comparative figures from the Kefauver hearings.

According to the 1954 Census of Manufacturers, chain store bakeries controlled some 7.5 per cent of the total bakery products sold. "Most experts estimate that in 1959 chains were producing some 20 per cent of all white bread sold," testified Mr. R. N. Laughlin.[1] According to the Chicago Tribune survey four chains had captured over one-third of the total bakery goods market in Chicago with their private label bakery products.[2]

The struggle between the chain store bakeries, with their inherent marketing advantage, and the wholesale bakeries has resulted in inflated distribution costs for the wholesale bakers. There are many facets to this problem, but they all seem to be related to basic weaknesses within the wholesale baking industry. The dependence of the wholesale bakers upon distribution channels that they cannot control, and where their strongest competitors frequently are, is perhaps the most serious weakness. The other problems discussed in this chapter seem to develop from or because of this basic weakness.

---

[1]Senate Subcommittee of the Judiciary, Hearings, op. cit., 1959, p. 6110.

[2]Also see Appendix A, Summary of White Bread Purchases as Reported by Newspapers, 1961, comp. Ted Bates and Company, Inc., New York, New York.

CHAPTER V

CONCLUSIONS

The evidence collected from the Kefauver hearings and Federal Trade Commission cases and other listed sources tend to indicate that several unhealthy conditions and practices exist. Some of these are:

1. Too much excess productive capacity in wholesale baking industry.
2. The wholesale baking industry has no one to blame for the present conditions except itself because it created this monster by its own acts.
3. Oligopsonistic power is exercised and to a very large extent by food chains.
4. The captive bakeries of the food chains represent the most powerful force in the baking industry today.
5. The chains and the independent grocers are guilty of a number of practices which are extremely detrimental to the baking industry and may well be illegal or, at best, questionable.
6. The bakers have failed to organize in a manner to cope with the chains on an equal basis.

The weight of the evidence as found and evaluated tends to show that the hypothesis of this study was verified.

Recommendations

The wholesale bakers must organize themselves, possibly in a cooperative manner, so that they can use their collective economic power to survive in this battle with the chain store captive bakeries. The wholesale bakers may find it to their advantage to integrate downward and obtain a financial interest and voice in the policy formation of the chain stores.

The wholesale bakers should examine closely the possibility and potential of opening multi-unit retail shops through which they can sell their products as they may desire.

The wholesale baker should investigate the possibility opening and operating "bantam" type open-front stores specializing in bakery products, dairy products, soft drinks, beer, and a limited line of fast turning grocery items. The wholesale bakers already have a small amount of first hand experience in retail operations from the operation of "thrift stores" where they sell their stale or returned bakery products.

The dairies are slowly moving into this type of an operation as they are squeezed out of the chain stores by private label dairy products. The wholesale baker might very well make a profitable alliance with the dairymen in such a venture. It could develop to the point where they might franchise the actual retail operation to a group of chain stores and thus completely reverse the present situation.

One small baker who serves the Oklahoma City, Oklahoma market area under the "Sonny Boy" brand name was, over a period of years, completely eliminated from the grocery store market. This enterprising baker proceeded to open up, over a period of eighteen months, some fifteen "thrift stores." He stated that the best thing that had ever happened to his business was his being denied space in the chain stores. He stated further that through his own thrift stores he was selling over three times as much merchandise as he had ever sold under any previous arrangement. He also stated that his profits were now at an all time high, and his production and distribution cost were at an all time low.

If one baker can do this perhaps others can do equally as well. This would not necessarily be the one best answer, but it certainly merits further study.

APPENDIX A

A SUMMARY OF WHITE BREAD PURCHASES
AS REPORTED BY NEWSPAPERS

A SUMMARY OF WHITE BREAD PURCHASES

AS REPORTED BY NEWSPAPERS

As a follow-up to the previous summary of 1961 data, it was decided to show a comparison with similar data of several years' previous. For most cities, the 1955 figures were available and where they were not, the 1956 figures were used.

In some cities when only special Trendex reports were made in 1960, there was no data available for 1955.

TED BATES & COMPANY, INC.

OTHER WHOLESALE BRANDS

A - Arnold
AB - Ark
AN - Ann Palmer
B - Buchan
BA - Mrs. Baird's
BN - Butternut
BO - Brownberry Ovens
BR - Betsy Ross
C - Carpenter
CB - Cook Book
CK - City Bakery
CN - Conkling
D - Donaldson
DA - Davidson
DC - Di Carlo
DF - Dunford
DN - Dandee
F - Famlee
FR - Franz
FS - Fischer
G - Gai's
H - Holmes
HO - Holsum
I - Ideal
J - Jaeger's
JU - Julian
K - Keystone
L - Langendorf
LA - Laub
M - Master
MA - Manor
MB - Magic Bake
MX - Marckx
N - NBC
NK - Nickles
P - Pennington
PF - Pepperidge Farm
PP - Peter Pan
R - Royal
S - Sunlite
SC - Schwebel's
SL - Sterling
SR - Southern
ST - Star
SE - Stein's
T - Tony
TQ - Table Queen
TT - Town Talk
W - White
WE - West

	St. Louis	Akron		Youngstown		Memphis	
	Trendex 1960	1955	1961	1955	1961	1955	1961
Continental	20.7%	11.4%	15.5%	20.4%	16.8%	33.7%	23.0%
Interstate	---	---	---	---	---	---	---
American	7.9	26.9	26.9	---	---	14.2	14.0
Camp-Tag	26.5	---	---	---	---	22.3	16.0
General	2.2	3.8	---	---	---	---	---
Q. B. A.	---	---	---	---	---	---	---
Ward	3.8	---	4.3	19.2	19.3	---	---
Gordon	---	---	---	---	---	---	---
Other Whole.	H 4.9	CK 6.7	CK 7.2	SC 20.3	SC 23.6	HT 19.9	HT 33.0
		NK 8.4	NK 5.5	K 7.1	K 10.5		
		SL 3.8	SL 3.7	DN 7.7	NK 5.5		
					JU 6.6		
Total Whole.	(6)66.0	(6)61.0	(6)63.1	(5)74.7	(6)82.3	(4)90.1	(4)86.0
Chain Priv. Lab.	(4) 8.4	(1) 3.9	(2) 8.2	(1) 4.7	(1) 5.9	(2) 8.0	(4)13.0
House to House	4.0	6.6	3.5				
Retail Shops		16.6	15.1	5.1			
Total Ex-Area	12.4	27.1	26.8	9.8	5.9	8.0	13.0
Misc.-D. K.	21.6	16.5	10.1	18.1	11.8	1.9	1.0
Chain Share Groc.	(9)45.8	(6)82.1	(5)88.4	NA	(5)78.0	(13)78.8	(9)63.0

	Minneapolis		San Diego		Los Angeles		San Jose	
	1955	1960	1955	1961	1955	1960	1955	1961
Continental	6.6%	13.9%	17.8%	20.8%	10.7%	10.1%	2.8%	6.6%
Interstate	---	---	17.9	12.1	(2)22.2	(2)22.1	---	2.9
American	25.5	18.9	---	---	---	---	---	---
Camp Tag	---	---	---	---	---	---	(2) 9.6	(2)11.9
General	---	---	---	---	(R)	(R)	---	---
Q. B. A.	---	---	15.0	23.1	---	---	---	---
Ward	---	---	---	---	---	---	---	---
Gordon	---	---	---	---	5.0	2.6	---	---
Other Whole.	M 12.5	M 10.9	L 6.4	L 6.2	L(2)28.1	L(2)18.9	S 40.2	S 37.3
	HO 9.9	HO 5.5	TT 5.4	TT 11.8	----	---	L 22.8	L 17.3
			CN 4.2	CN 8.1				
			BR 3.8					
Total Whole.	(4)54.5	(4)49.2	(7)70.5	(6)82.1	(6)66.0	(6)53.7	(6)75.4	(6)76.0
Chain Priv.Lab.	(2)13.2	(5)18.9	(2) 7.5	(1) 3.0	(2) 6.6	(3) 6.2	(1) 3.6	(1) 6.1
House to House	9.2	3.6	5.8	5.1	10.7	16.3	---	---
Retail Shops	22.9	24.0	---	1.9	5.2	5.5	---	---
Total Ex-Area	45.3	46.5	13.3	10.0	22.5	28.0	3.6	6.1
Misc.-D. K.	7.6	10.9	16.2	7.9	12.2	18.3	21.1	17.9
Chain Share Groc.	(8)76.9	(9)82.0	NA	(8)61.8	(10)63.8	(10)62.1	(6) NA	(6)50.4

	Sacramento		Denver		Wichita		Omaha	
	1955	1961	1955	1961	1956	1961	1955	1961
Continental	32.4%	27.2%	4.6%	6.8%	27.5%	30.4%	8.6%	10.6%
Interstate	11.7	13.7	---	11.0*	---	---	28.1	27.9
American	---	---	---	---	---	---	---	---
Camp-Tag	28.4	25.8	18.0	17.1	24.7	30.4	---	---
General	---	---	---	---	16.1	16.2	---	---
Q. B. A.	12.2	15.6	9.8**	---	4.6	---	---	---
Ward	---	---	---	---	---	---	---	---
Gordon	---	---	---	---	---	---	---	---
Other Whole.	L(2) 9.2	L(2) 5.0	ST 5.7 TT 10.5 H 5.2	ST 11.0 TT 7.9 B 2.8	AB 10.3	AB 8.7	PP 30.9	PP 27.3
Total Whole.	(6)93.9	(6)87.3	(6)53.8	(6)56.6	(7)88.3	(4)85.7	(3)67.6	(3)65.8
Chain Priv.Lab.	(1) 1.8	(1) 2.1	(3)30.1	(3)24.2	(2) 3.6	(3) 7.8	(1) 1.6	(4)10.6
House to House	---	---	16.2	11.1	---	---	25.2	12.7
Retail Shops	---	---	---	---	---	---	3.6	4.1
Total Ex-Area	1.8	2.1	46.3	35.3	3.6	7.8	30.4	27.4
Misc.-D. K.	9.4	10.6	13.0	8.2	13.2	6.6	5.2	6.8
Chain Share Groc.	NA	(7)61.8	(3)86.5	(4)86.7	(3)38.2	(3)37.8	(5)80.4	(6)82.1

*Butternut; **Sunbeam

	Providence	Seattle		Cleveland		St. Paul	
	1961	1955	1961	1955	1959	1955	1961
Continental	3.5%	33.9%	25.3%	8.6%	7.3%	11.1%	15.7%
Interstate	---	---	---	---	---	---	---
American	---	---	---	---	---	32.4	27.8
Camp-Tag	---	---	---	---	---	---	---
General	13.2	---	---	6.7	5.1	---	---
Q. B. A.	17.0	14.7	11.9	---	---	---	---
Ward	19.8	---	---	16.2	13.7	---	---
Gordon	---	---	---	---	---	---	---
Other Whole.	H 12.0	L 17.0	L 13.0	LA 8.0	LA 7.3	M 24.0	M 15.3
	G 11.9	B 9.2	B 9.4	ST 6.2	ST 6.0	HO 1.7	HO 1.1
	C 3.4	G 2.5	G 6.6	N 5.5	N 3.5		
Total Whole.	(7)80.8	(5)77.3	(5)66.2	(6)51.2	(6)43.1	(4)69.2	(4)59.9
Chain Priv. Lab.	(3) 7.6	(2) 8.4	(3)14.1	(3)21.0	(4)17.3	(1) 1.1	(3) 8.7
House to House	---	---	---	4.5	3.8	---	---
Retail Shops	---	11.1	12.3	6.7*	29.6**	11.3	21.5
Total Ex-Area	7.6	19.5	26.4	32.2	50.7	12.4	30.2
Misc.-D. K.	11.6	4.7	7.4	16.6	6.2	19.3	9.9
Chain Share Groc.	(5)72.0	(4)59.9	(7)64.9	(4)65.2	(7)83.0	(10)79.6	(11)89.3

*Lawson 5.1, Hough 1.6;
**Lawson 10.6, Bakery Bread 9.5, Hough 3.6, Other Bakeries 5.9

	Chicago		Indianapolis		Salt Lake City		Long Beach	
	1956	1960 (Trendex)	1955	1960	1955	1960	1955	1961
Continental	20.3%	18.4%	16.2%	19.9%	34.8%	21.9%	7.2%	11.8%
Interstate	15.6	13.6	---	---	---	---	(2)39.4	(2)32.9
American	---	---	10.6	10.0	---	---	---	---
Camp-Tag	---	---	20.2	20.5	---	---	---	---
General	---	---	---	---	---	---	---	---
Q. B. A.	---	---	---	---	---	---	---	---
Ward	5.6	5.4	---	---	---	---	---	---
Gordon	32.3	19.7	---	---	---	---	---	---
Other Whole.	HO 5.5	HO 8.9	WE 14.2	WE 15.3	F 17.9 BR 18.3 DF 5.5 TQ 8.0	F 15.8 PP 15.0 DF 12.0 R 6.0	L(2)17.6 DC 2.6	L(2)13.6 DC 4.3
Total Whole.	(5)79.3	(5)66.0	(4)61.2	(4)65.7	(5)84.5	(5)70.7	(6)66.8	(6)62.6
Chain Priv. Lab.	(3) 8.6	(4)16.0	(2) 5.7	(3)12.4	(2) 7.2	(3)14.2	(3) 5.7	(5)10.5
House to House	---	---	25.9	14.1	---	---	12.3	10.9
Retail Shops	7.7	6.5	---	2.3	---	3.3	4.2	---
Total Ex-Area	16.3	22.5	31.6	28.8	7.2	17.5	22.2	21.4
Misc.-D. K.	7.9	18.5	7.2	5.5	12.7	11.8	11.0	12.7
Chain Share Groc.	NA	(9)65.2	(3)52.3	(5)72.4	(6)80.4	(6)61.1	NA	(12)84.7

	Columbus 1955	Columbus 1961	Washington 1955	Washington 1961	Detroit 1960	New York 1960	Kansas City 1960	Milwaukee 1955	Milwaukee 1961
						(Trendex)	(Trendex)		
Continental	14.3%	14.9%	27.0%	(2)33.0%	8.8%	12.1%	23.3%	27.4%	27.0%
Interstate	---	---	---	---	---	---	9.2	23.2	13.9
American	12.4	16.2	---	---	12.4	11.1	16.2	---	---
Camp-Tag	---	---	---	---	---	---	H/H	---	---
General	10.0	8.6	21.5	13.0	---	9.5	(R)	---	---
Q. B. A.	---	---	9.0	---	---	---	---	---	---
Ward	8.6	6.5	---	---	2.6	6.9	---	---	---
Gordon	---	---	---	---	14.5	23.1	---	---	---
Other Whole.	P 7.8	P 10.2	H 3.4	H 5.0	S 7.3	A 5.4	H 4.1	J 13.3	J 11.9
	D 11.0	D 8.2	PF 3.9	SR 4.0	---	P 4.8	---	BO 2.8	BO 4.2
Total Whole.	(6)64.1	(6)64.6	(5)64.8	(5)55.0	(5)45.6	(7)72.9	(4)52.8	(4)66.7	(4)57.0
Chain Priv. Lab.	(3)11.2	(4)14.1	(5)25.2	(3)30.0	(2)16.4	(1) 7.8	(4)27.3	(2) 8.1	(4)17.5
House to House	20.8	15.8	---	---	(2)18.1	(2) 8.6	---	7.4	1.2
Retail Shops	---	---	---	---	---	---	---	12.1	8.6
Total Ex-Area	32.0	29.9	25.2	85.0	34.5	16.4	27.3	27.6	27.3
Misc.-D.K.	5.1	5.5	12.7	15.0	19.9	10.7	19.8	7.8	17.0
Chain Share Groc.	(7)85.3	(5)75.7	NA	(7)89.0	(7)79.2	(27)49.0	(4)60.0	(7)75.9	(8)84.7

	Toledo		Dallas		Portland		Cincinnati	
	1955	1961	1956	1959	1955	1961	1955	1961
Continental	14.4%	15.6%	2.9%	6.8%	20.0%	14.3%	4.4%	6.8%
Interstate	---	---	---	---	---	---	17.1	15.2
American	15.1	12.1	5.6	4.9	---	---	25.7	20.2
Camp-Tag	---	---	H/H	H/H	---	---	10.6	12.7
General	12.4	3.9	---	---	---	---	---	---
Q. B. A.	15.2	18.3	13.1	13.1	---	---	---	---
Ward	---	---	---	---	---	---	---	---
Gordon	4.9	2.2	---	---	---	---	---	---
Other Whole.	---	N 7.6	BA 46.3	BA 47.1	FR 27.4	FR 27.6	W 2.0	W 3.3
	T 4.9	T 5.9	BN 2.4	BN 2.1	DA 15.5	DA 11.3	P 6.6	P 2.1
	SH 8.9	SH 3.6	---	---	L 9.5	L 7.4	---	---
					AN 6.2	AN 6.9		
					MX 5.4	MX 3.9		
					SE 3.1	SE 4.1		
Total Whole.	(7)75.8	(8)69.2	(5)70.3	(5)74.0	(7)87.1	(7)75.5	(6)66.4	(6)60.3
Chain Priv. Lab.	(2)13.3	(2)18.6	(2) 2.7	(2) 3.4	(2) 6.2	(4) 9.1	(3)15.3	(2)16.8
House to House	---	---	MA 14.4	MA 11.6	---	---	1.2	2.4
			I 8.9	I 6.0				
Retail Shops	2.8	---	---	---	---	---	3.7	---
Total Ex-Area	16.1	18.6	26.0	21.0	6.2	9.1	20.2	19.2
Misc.-D. K.	11.3	12.2	5.9	5.7	11.5	16.9	14.1	20.7
Chain Share Groc.	(6)75.8	(8)78.0	NA	(9)80.0	(7)63.8	(9)71.3	(3)74.6	(3)65.6

BIBLIOGRAPHY

Books

Leftwich, Richard H. The Price System and Resource Allocation. New York: Holt, Rinehart, and Winston, 1961.

Mueller, Willard F. and Garoian, Leon. Changes in the Market Structure of Grocery Retailing. Madison, Wisconsin: The University of Wisconsin Press, 1961.

Panschar, William G. Baking in America, Vol. I: Economic Development. Evanston, Illinois: Northwestern University Press, 1956.

Slater, Charles C. Baking in America, Vol. II: Market Organization and Competition. Evanston, Illinois: Northwestern University Press, 1956.

Slater, Charles C. Economic Changes in the Baking Industry, Supplement to Baking in America.

Pamphlets, Magazines, and Newspapers

Bakers Weekly, August 8, 1960.

Davis, Russell E. "The Depth and Impact of Supermarket Bakery Activities," Baking Industry. Chicago: Clissold Publishing Company, October 5, 1957, June 25, 1960, and April 29, 1961.

E. I. du Pont de Nemours and Company. Every Second Counts, A Study of Consumer Bakery Shopping Habits. Wilmington, Delaware: E. I. duPont de Nemours and Co., 1953.

Mueller, Robert W. Facts in Grocery Distribution. 28th ed.; New York: Progressive Grocer, 1961.

Progressive Grocer. "21st Annual Survey." New York: Progressive Grocer, January, 1954.

Supermarket News, March 12, 1962.

Wall Street Journal, October 23, 1961.

Reports and Public Documents

Anheuser-Busch Survey of Bread Prices. Cost and Margin Trends in the Baking Industry, 1954.

Federal Trade Commission Decisions. July 1, 1958 to June 30, 1959. Washington, D. C.: Government Printing Office, 1960.

Statutes and Court Decisions. Vol. V, 1949-1955. Comp. Harriette H. Esch, 1957.

Ted Bates Company, Inc. A Summary of White Bread Purchases As Reported by Newspapers. New York, 1961.

U. S. Department of Commerce. Census of Manufacturers. Washington, D. C.: U. S. Government Printing Office, 1958.

U. S. Senate. Subcommittee of the Judiciary. Hearings, Study of Administered Prices in the Bread Industry. Part 12, 86th Cong., 1st Sess., 1959.

U. S. Senate. Subcommittee on the Judiciary. Report, Study of Administered Prices in the Bread Industry. 86th Cong., 2nd Sess., 1960.