A DESCRIPTION OF THE VOLUNTARY GROUP MOVEMENT

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CHAPTER I

INTRODUCTION AND STATEMENT OF THEORY

This paper will be devoted to a description of the voluntary group method of operation and type of organization in the food distribution field.

The work will describe the economic conditions in the retail food industry which caused the inception of the voluntary group method of distribution. Some consideration will be given to the basic concepts underlying the voluntary movement, while stating the various advantages and disadvantages of the voluntary movement. Information presented in this area will be derived from text books, trade periodicals, and marketing journals. This will constitute the theory concept of the voluntary group.

The complete operational procedures of two voluntary group wholesalers will be described. Particular emphasis will be given to the extent and cost of the programs offered by these two wholesalers to affiliated retailers.

The final portion of this paper, embodying the summary and conclusion, will correlate the theory of the voluntary group movement, with the operations of the two firms under discussion. This will be done to determine how well the real world of action checks in with the concept of voluntary gr-operation between independently owned marketing institutions. Here, special emphasis will be given to significant trends found in the operating procedures of the two groups.

Definition of Terms

In the discussion the reader will encounter the terms voluntary group, retailer affiliation, and cooperative agreement. To prevent misunderstanding the author will now define the terms as they are used in this report.

Voluntary group refers to an organization established by a sponsoring wholesaler and a number of independent retailers for the distribution of food products. The purpose of voluntary affiliation is to enable the independent wholesaler and retailer to compete with the fully integrated food chain. Whereas, the chain store method of distribution relies on one firm owning both the wholesaling and retailing operations, the principle of the voluntary movement rests upon cooperation between independently owned, but interdependent business firms.

Retailer affiliation with a voluntary group means that an independent merchant has received a franchise from a wholesaler to display the group emblem on his market, and is entitled to all the merchandising services of the sponsor. By joining such a group, the retailer becomes identified as a member of the affiliated group, rather than as an independent merchant.

Cooperative agreement as used in this report is defined as the basic contract underlying the business relationship between the parties in a voluntary group, namely the retailer and the sponsoring wholesaler. This agreement specifies the obligations of the parties involved.

The Importance of the Study

In the past three decades the voluntary group movement has grown substantially in volume and importance in the food distribution industry. Cooperation, originally forced upon independent retailers and wholesalers, has enabled independent retailers to successfully compete with chain markets, while at the same time preserving the existence of the wholesaler as a marketing institution. Recently voluntary wholesalers have been providing an increasing variety of merchandise, services and aid to affiliated retailers.

It is hoped this paper will provide the interested student with a much more detailed analysis of the voluntary movement than is found in the popular marketing text. Presenting the theory and its real world application, this paper offers an opportunity to see the transition which two firms made in utilizing the voluntary group method of operation.

Because of increasing emphasis on market development, store improvement, and group participation the original concept of the voluntary association between firms has undergone significant revision. This paper points out how two voluntary group sponsors have been able to grow in face of increased competition, while making extensive efforts to combat the evident weaknesses of the voluntary cooperation principle.

Limitations of the Study

Recent figures showed the nation has [illegible] voluntary group wholesalers, with the average yearly volume per firm being [illegible] million. These firms all merchandise dry grocery products and a large number have gone into other lines to the following extent: [illegible] per cent carry fresh meat, 54 per cent stock produce, and 78 per cent sell health and beauty aids. In the financial area, 42 per cent give extended credit to retailers, 48 per cent assist retailers in obtaining leases, 14 per cent take the prime lease on sites, and then sub-let the sites to retailers, 17 per cent hold mortgages on retail markets, 22 per cent guarantee retailer loans, and 59 per cent find locations for new markets.[1]

In light of the facts revealed above, the two firms used in this study must be classified as industry leaders in regard to volume, variety of merchandise handled, and the financial role played by the wholesaler. One firm used in this report is the nation's largest independent wholesaler sponsoring a voluntary group. The other operates as the

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[1]Robert [illegible] [illegible], "Annual Report on Food Retailing," Progressive Grocer, Vol. [illegible], No. 4, ([illegible]), pp. F-1 to F-[illegible].

franchised member of a nation wide voluntary organization, and is the number two firm in terms of sales in the group. The independent wholesaler has affiliated retailers in nine states with the greatest amount of the firm's operations taking place in areas of limited population, while the franchised wholesaler has a marketing region confined largely to a metropolitan area.

The two organizations presented for discussion are offered as leading examples of successful voluntary group operations. No effort has been made to compare the two firms for the purpose of proving one firm or another is superior, rather the expressed limits of the study confine the report to an individual description of each wholesaler's operations.

Methodology

The author's first step in developing the work was the selection of the general topic area and the development of a tentative outline. After this was done, the number and type of firms necessary for a study of this nature was determined, consideration being given to the extent of the study, availability of information, and representation of the voluntary movement. Letters were then sent to the companies chosen requesting permission to use their firms in the paper and requesting personal interviews.

In preparation for the interviews, the author outlined the general type of material needed for the report and made a general outline, with possible conclusions to show to each firm. During the course of the interviews, definite questions were asked the officials of each firm, all available company materials in regard to method of operation were obtained, and general remarks by the personnel of each organization were recorded.

Following the gathering of all direct company information, secondary source material on the voluntary movement in general was analyzed and recorded for development into a thesis chapter. After completion of the theory portion, the chapters on each of the two companies were written, utilizing the primary source material gained through the personal interviews, and unpublished company information, while also making limited use of secondary source material.

When the work reached this stage and had been given tentative [illegible] approval, the writer returned to each of the companies used in this report for second interviews with company officials. At this time, the writer was able to have the work checked in regard to accuracy. The final work on the paper was then devoted to correcting the various chapters and preparing the completed work.

Selection of the Firms

In selecting firms for use in this report the first consideration was to choose companies with which the author had some degree of previous contact. Fortunately, the two firms [illegible] cooperative in agreeing to give permission for use of their operations in the study and granting the necessary time on the part of officials to hold personal interviews with the author, as well as making numerous company records available for inspection.

Additional considerations in choosing the firms under analysis were location, type of operation and the success of operation. In addition, it was felt much more could be gained from research utilizing leading firms.

CHAPTER II

THE [illegible] GROUP [illegible]

[illegible] Distribution In [illegible]

There has been a marked increase in the productivity of food distributors, on both the retail and the wholesale levels, the past half century. In the period between [illegible] and 19[illegible]0 the typical wholesaler warehoused goods in a multi-story warehouse transferring the merchandise without the aid of fork lift trucks or pallets. Usually wholesalers employed a force of salesmen who called on the retailers in an effort to solicit business. These retailers frequently purchased from a number of wholesalers, making the orders on the wholesale level small and expensive to process. Merchandise was billed on a credit basis, frequently collections were slow, and in some cases impossible to make. Delivery was made either by the wholesaler, the local freight service, or by the retailer.[4]

During this period a great many consumers bought their groceries on credit, delivered to their doors, and required the retailer to perform numerous costly services.[5]

[illegible] "Thirty-[illegible] of Wholesaling," [illegible]

As late as 1920, a grocery product costing the wholesaler $1.00 would usually cost the retailer $1.13 and the consumer $1.40.[4]

The Advent of the Chain

Chain stores entered the grocery field extensively in the early 1920's and completely changed the character of the food industry. While the chain idea had been in existence since the first appearance of large cities, the development was limited until the advent of urban transportation in the 1920's. The rate of chain growth in this period is shown by the fact that:

> of the 315 grocery chains operating in 1928 and reporting historical data to the FTC or traced by it, only 17 were in operation by 1900. By 1914 the number had increased to 35 and by 1928, after a mushroom like growth, to the full 315, despite absorption of 111 chains through merger and consolidation.[5]

Authors refer to the 1920's as the chain store era. At the end of this period in 1929 there were 801 grocery chains with 4 or more units, with the average chain having 67 stores. These grocery stores, 54,000 in total, did 34 per of all grocery volume by 1929.[6]

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[4] *Ibid.*

[5] FTC, Chain Stores: *Growth and Development of Chain Stores*, 72nd Cong., 1st Sess., Doc. No. [illegible] (Washington: G.P.O., 1932), pp. 55, 80-81, cited by Joseph C. Palamountain Jr., *The Politics of Distribution* (Cambridge: Harvard University Press, 1955), p. 61.

[6] *Ibid.*, p. 61.

Efforts to Fight the Chains

Despite the complaints of independent wholesalers and retailers that the chain's lower selling prices, the basis of their success, were due to the unfairly lower prices at which they bought their merchandise, several government investigations did not support the claims.[7] Independents still felt there must be something unfair about the method of operation that could take away one-third of their business and threaten their very existence. Smaller retailers carried on extensive successful campaigns to enact restrictive legislation upon the chains, and by the 1960's, 45 states had passed some form of price maintenance laws. In addition, a number of states had additional forms of anti-chain legislation in force, usually in the form of taxes levied on multi-store operators. However, for the most part such activities did not substantially affect the chain store growth.[8]

The chains were successful primarily because they were better merchants. By purchasing direct from the manufacturer, doing their own warehousing, and selling through their established retail outlets to the consumers, they were able to substantially lower the cost of distribution. On the wholesale level it was not necessary for the chain wholesaler to sell the merchandise to the retailer before the

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[7] Ibid., pp. 61-63.

[8] Converse, Op. Cit., pp. 46-47.

consumer could make the purchase on the retail level.[9] The chains were able to extend all their effort into retail level merchandising. Consequently, with enforced standards of operation, better stores resulted than the average independent had developed at that time. The lower prices, made possible by cash and carry policies, and more efficient wholesaling, together with better stores created a combination which the consumers wanted. The consumers flocked to the chain stores, the independent retailers suffered the loss of one-third of their sales, and this in turn hurt the wholesalers.

Realizing that legislative efforts alone would not combat the popular chain idea of distribution, independent business men on both the wholesale and retail levels looked for some form of marketing organization which would enable them to stay in business. In an effort to meet the competition of the chains, a strong movement developed among independent wholesalers and retailers toward group activities.[10] Two special types of retailer-wholesaler organizations have evolved as a direct result of chain store advances in the grocery field: the retailer cooperatives and the voluntary group.[11]

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[9]Godfrey M. Lebhar, *Chain Stores in America* (New York: Chain Store Publishing Corporation, 19[illegible]), p. [illegible].

[10]Delbert Duncan and Charles Phillips, *Marketing Principles and Methods* (Chicago: Richard D. Irwin, Inc., 1955), p. [illegible].

[11][illegible]

Voluntary groups or cooperative associations of retailers have assumed a number of forms. First, there exists a number of buying and advertising groups, usually of a small number of independent merchants, who either advertise under a common name or purchase their goods under a joint buying agreement, in some cases the group will perform both the buying and advertising functions. Second, are the retailer-owned cooperatives in which a group of retailers join cooperatively to operate a common wholesaling facility. Each retailer purchases stock in such a venture, with profits being distributed at the year's end, usually on a percent of purchases. The third form consists of voluntary groups which are sponsored by a regular wholesaler. Under this arrangement both the retailers and the wholesalers are independent businessmen. Fourth, some of the corporate chains, have used dealers or franchise retailers to extend their operations into areas which the corporate chain does not wish to establish branches.[1]

Of the four types of group arrangements mentioned above, the majority of the independent food business is done through either the voluntary group arrangement, with the retailers being sponsored by the wholesaler, or by the retailer-owned cooperative warehouse groups.

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[1] Theodore Beckman, Harold Maynard and William Davidson, *Principles of Marketing* (New York: The Ronald Press Company, 1957), p. [illegible].

In the cooperative houses the retailers mail in their order, pay cash each week for their purchases, and own their warehouse. Recent figures show retailer owner co-operatives number 198 with annual sales of $2.35 billion.[13] It is estimated that over 50,[illegible] retailers belong to such groups.[14] Cooperatives have made substantial gains in reducing distribution costs, with operating costs of 4.4 per cent of sales, whereas the voluntary groups report costs of [illegible].4 per cent of sales.[15] Even with this substantially lower costs their growth has not been as rapid as the rate of expansion of the voluntary groups, chiefly because of their heavy emphasis on buying and warehousing while giving limited attention to providing the retailer with merchandising and operational assistance. In the past ten years, there has been an increasing awareness of this problem with the result, that many of the cooperative wholesalers are now providing merchandising assistance to member stores, in somewhat the same way as the voluntary wholesalers.[16]

The Voluntary Movement

Voluntary groups date from the General Purchasing and Distributing Company of San Francisco which was founded in

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[13]Robert W. Mueller, "Annual Report on Food Retailing," Progressive Grocer, Vol. 37, No. 4, (April, 1958), p. F-16.

[14]Converse, Op. Cit., p. 47.

[15]Beckman, Maynard and Davidson, Op. Cit., p. 212.

[16]Converse, Op. Cit., p. 47.

1916. As a result of the heavy chain competition in the 1920's, an increasing number of voluntary groups were formed by regular wholesalers. The 1939 census figures listed 638 voluntary groups with annual sales of $658 million. In 1948, the same source listed voluntary group sales on the wholesale level at $1.6 billion, with 635 voluntary groups in existence.[17] In 1957 voluntary group wholesalers reported annual sales of $3.55 billion, with 555 groups in operation.[18] These wholesalers are currently servicing approximately 39,000 affiliated dealers.[19]

A voluntary group may be defined as an organization composed of a group of independently owned retail stores, associated with a sponsoring wholesaler, also an independent businessman, for the purposes of buying and selling merchandise, as well as the other related merchandising activities.[20]

A voluntary group is sponsored by a wholesaler who retains ownership and control of this business. The name voluntary originates because the retailers voluntarily affiliate with the wholesaler. The basic idea of the voluntary agree-

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[17]Duncan and Phillips, Op. Cit., p. [illegible].

[18]Mueller, Op. Cit., p. 9-16.

[19]Converse, Op. Cit., p. 47.

[20]Robert H. Cole, Vertical Integration in Marketing (Urbana: University of Illinois, 1952), Excerpts from section V, as cited in Wingate and Corbin, Changing Patterns in Retailing (Homewood: Richard D. Irwin, Inc., 1956), pp. [illegible].

ment between independent businessmen centers around their mutual dependence. The retailer must have a low cost source of supply as well as numerous staff services to insure his success in business and the wholesaler is dependent upon the retailer, as any seller is dependent upon his customers. Voluntary groups have been largely formed by wholesalers who have felt the impact of chain store development and who realized their future existence depended upon their maintaining the independent merchant in business.[21]

In 1931 grocery wholesalers held a discussion on voluntary groups during a national convention. In this discussion the basic philosophy behind the voluntary group relationship was described in light of the obligations of both wholesalers and retailers.

> The voluntary chain relationship instead of being a creditor-debtor relationship, is a partnership. What precisely does this mean? It means that the retailer should support the partnership by buying all of his groceries from his wholesaler. Concentration of purchases is the real economic foundation on which the success of the voluntary chain rests.
>
> The retailer must cooperate by putting real sales effort back of the lines of those manufacturers who are cooperating with the wholesaler. Especially must retailers follow prices that are listed in advertising.
>
> The wholesaler must offer to his retailers a general average of prices which is lower than the retailer could get by shopping around.

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[21] Duncan and Phillips, <u>Op</u>. <u>Cit</u>., p. 210.

Secondly, the wholesaler must recognize that the retailer's success depends not alone on the grocery business. Most grocery stores today (1951) do from one-half to two-thirds of their total volume in lines not handled by the wholesaler. The wholesaler must, therefore take upon himself the responsibility of negotiating deals with supply sources for bakery goods, butter and eggs, cheese, fresh fruit and vegetables, cured and fresh meats, and other lines which will give to the retailer more satisfactory service and which will enable the retailer to own that merchandise at a lower cost. The wholesaler is naturally in a much better position to make these arrangements than is the retailer.

Thirdly, the wholesaler, out of his wider knowledge and experience must undertake to supply the retailer the same sort of supervision, guidance, and help that the headquarters of a chain gives to its store manager.[22]

Although the wholesaler sponsored groups may vary in many details, the essential basis of the organization in all cases is one of mutual cooperation.[23]

This cooperation, necessitated by the merchandising advances of the chains, is directed toward providing the retailers with goods at competitive prices, while at the same time aiding the independents to operate better stores. Wholesalers realize their existence is dependent upon the survival of the independent retailer, consequently wholesalers provide merchandise and guidance to the independent merchants to insure a market for their merchandise. Working together, although independently owned, retailers and wholesalers direct

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[22] P. L. [illegible], "Now and Then," Wholesale-Grocer News, Vol. [illegible], No. [illegible], [illegible], pp. [illegible].

[23] [illegible], op. cit., p. [illegible].

efforts toward performing the distribution function in much the same way a fully integrated and owned chain organization would operate. In many instances such groups are absolutely necessary for survival. Without the assured market of a number of affiliated retailers the wholesaler cannot operate on the warehouse level economically. The retailers needs are: an economical source of supply, assistance in operations counselling, advertising, store engineering, accounting, and other overall merchandising aids.

How A Voluntary Group Organization Functions

The basis of the voluntary group agreement is stated in the contract made between the store owner and the wholesaler in which both parties agree to work together to further their common interest.[24] Wholesalers in the voluntary arrangement agree to furnish merchandising advice which includes an advertising program for the group, supervisors who visit the member stores, an accounting program, aid in store development and remodeling, store identification signs, a complete line of private label merchandise, and in general all the assistance a chain headquarters gives to the store manager.[25]

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[24] Edwin H. Lewis, "Comeback of the Wholesaler," Harvard Business Review, Vol. 33, (November-December, 1955), p. 120.

[25] Duncan and Phillips. Op. Cit., p. [illegible].

A voluntary wholesaler, has an assured market through affiliated dealers and can consequently operate without salesmen, as the merchandise is theoretically pre sold to franchised dealers. Franchises are usually limited to avoid direct competition between retailers within the voluntary group. These retailers have agreed to buy all or most of their merchandise from the wholesaler which makes it possible to operate at a minimum cost at the warehouse level, and devote a sustained effort to providing the retailers with merchandising assistance.[26] Franchises given to the retailer may be one the wholesaler controls, as Royal Blue, Super Valu, Jack Spratt or Cardinal or one which the wholesaler has obtained from a national organization such as IGA, Red and White, or Clover Farm.[27]

The wholesaler, receives mail or phone orders on scheduled days of the week from the retailers. Emphasis is placed on one large scale order each week.[28] Wholesalers of a national franchise organization utilize a plan in which the retailer places but one order each week, pays cash on delivery, helps unload the truck and pays lower prices for merchandise as the size of the order increases.[29] The whole-

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[26] Converse, Op. Cit., p. 47.

[27] Ibid.

[28] Lewis, Op. Cit., p. 120.

[29] Duncan and Phillips, Op. Cit., p. 211.

saler generally bills the merchandise to the retailer at cost, covering expenses and earning the necessary return on investment by charging fees for handling the merchandise. These fees are usually on a percent of purchases. In addition, certain set weekly charges are made for the various forms of merchandising and operational assistance the wholesaler may extend to the retailer.

Realizing the need for new and better markets, wholesalers have made extensive efforts not only to give financial assistance to existing operators, but have gone so far as to rent buildings, place fixtures in them, stock them, open them for business, and then allow independent operators to buy them.[30] The role of the wholesaler in financing tends to become increasingly important as the investment requirements on the retail level grew out of the reach of many otherwise qualified merchants. In order to successfully compete with chain organizations in the quest for new locations, wholesalers are tending to find their banking function of increasing importance.

Retailer participation in a voluntary group requires certain specified actions on the part of the retailer. Primarily, the retailer is expected to buy the bulk of the merchandise from the sponsoring wholesaler.[31] The agreement to

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[30] *Ibid.*, p. [illegible].

[31] Lewis, *Op. Cit.*, p. 11[illegible].

concentrate purchases in the hands of the sponsoring wholesaler is the basis of the voluntary agreement. Voluntary groups were started with the theory that the retailers agreed to buy all, or a large portion of the goods from the sponsoring wholesaler.[32]

In addition to the concentration of purchases, membership in a voluntary group requires the retailers to maintain each store on a certain level suggested by the wholesaler, display the affiliated group name, merchandise the groups private label merchandise and maintain a certain accounting procedure instituted by the wholesaler.[33] While not all retail prices are uniform, advertised articles must be sold at the price stated in the group's advertising.[34] While the individual stores in a voluntary group are not standardized to the degree corporate stores are, certain requirements are made of the retailer to develop the familiarity achieved through chain uniformity. To varying degrees group advertising and promotion are used, private brands in the retail stores, uniform stock merchandising, price agreement in the affiliated stores, identifiable store fronts and established standards of cleanliness.[35]

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[32] Cole, <u>Op</u>. <u>Cit</u>., p. 69.

[33] Duncan and Phillips, <u>Op</u>. <u>Cit</u>., p. [illegible].

[34] Beckman, Maynard and Davidson, <u>Op</u>. <u>Cit</u>., p. 211.

[35] The Twentieth Century Fund, <u>Op</u>. <u>Cit</u>., p. 86.

Membership in a voluntary group is the independent retailers opportunity to maintain ownership of the business while copying many of the chain methods in regard to purchasing, operating procedures and merchandising.[36] When the chains came upon the food market with their low priced cash and carry operations, the independent merchants were hard pressed to meet this competition because of two reasons: (1) the higher cost of merchandise and (2) the costly services the customers expected from the independents. Membership in a voluntary group not only provides the retailer with a lower cost of merchandise, but requires him to operate on a high turnover, low margin, cash basis.[37]

Membership of the retailer in a voluntary group is not based solely on the buying motive. Of primary importance to retailers in a voluntary group is the merchandising program available from the wholesaler.[38] The philosophy, of the voluntaries, to make the retailers better merchants, is based on the principle that the growth of the chain stores was due as much to the poor merchandising of the independent retailers, as it was due to the lower prices of the chains. In joining

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[36] Palamountain, Op. Cit., p. 7[illegible].

[37] Carl H. Wolf Jr., "Channels Used In Marketing Canned Foods," Marketing Channels for Manufactured Products Richard M. Clewett, ed., (Homewood: Richard D. Irwin, Inc., 1954), p. [illegible].

[38] Ibid.

a voluntary group, the retailer's aim is to operate a better store, or as good a one as the chains and to sell merchandise at the same prices as the chains. Retailer membership in a voluntary is designed to improve the operations of the independent store, by allowing the individual businessman to obtain the benefit of specialized assistance equal to the staff assistance a chain organization can provide the individual member.

Benefits of Voluntary Group Affiliation

Independent stores organized cooperatively with an established wholesaler have been able to seize many of the advantages of chain operation while at the same time maintaining greater latitude in regard to prices, hours, and customer services.[39] The success of numerous voluntary groups show that this form of organization has inherent strength. While not all agreements or efforts in this area have succeeded, enough have succeeded to give conclusive evidence that the basic premise, that of group retailers working together to secure buying, advertising, and merchandising advantages is fundamentally sound. Success of the voluntary idea can be attributed to certain basic factors. First, and most important, is the superior planning of the sponsoring organization which raises the level of merchandising in the member stores.

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[39]The Twentieth Century Fund. Op. Cit., p. [illegible].

Some plans go so far as to require the retailer to meet specified standards or face cancellation of his franchise.[40] Second, wholesaler supervisors may play an instrumental role in this aspect of the voluntary movement by calling on the retailers from time to time, giving advice on operations and merchandising. Third, the retailer is able to devote full attention to one main duty, the profitable sale of merchandise, because the wholesaler has assumed certain activities which formerly were the unspecialized duty of the retailer.[41] These functions include advertising, accounting, buying, suggested price lists, and in some instances the training of employees. Fourth, voluntary affiliation allows the retailer to price goods competitively and make a profit.[42] Fifth, membership in a group gives the retailer a distinct personality, obtainable through an exclusive franchise to private brand merchandise in his marketing area. Formerly, the merchandise sold under a wholesaler's private label might be available in several stores in the same trading area, membership in a group limits this merchandise to one specific retailer. Not only is the consumer franchise valuable in connection with this merchandise, but also the retailer is free of direct price competition to some degree under this type of arrangement.

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[40] Beckman, Engle and Davidson, op. cit., p. [illegible].

[41] Duncan and Phillips, op. cit., p. [illegible].

[42] Ibid., p. [illegible].

While the above factors develop the advantages of voluntary group participation from the retailer's point of view, it must not be forgotten that the wholesalers, who are the primary moving force behind the movement, secure substantial benefits by instigating voluntary groups. The wholesaler's chief benefit is, of course, an assured market in which the customers are pre-sold on the wholesaler's merchandising program. Voluntary group wholesalers typically sell less of the total volume of merchandise through member stores than cooperatives. This is true because voluntaries have been established by existing wholesalers, who have customers who refuse to join a voluntary group.[43] However, an increasing per cent of the voluntary wholesaler's business is dependent upon the cooperation of the affiliated dealers. The increased buying power made available through the sponsorship of a voluntary group results in savings to the affiliated dealers, as well as making economies possible on the warehouse level.

Larger wholesale grocers, typically in metropolitan areas frequently sponsor one or more voluntary groups, while at the same time selling to contract or non-affiliated accounts. In sponsoring two or more groups the wholesaler usually restricts the upper level group to stores of the super market class, and allowing the other markets to display affiliated signs of varying types dependent upon volume

[43] _Ibid._, p. 211.

and plant capacity.[44] Such an arrangement allows the wholesaler to grant several types of franchise agreements to retailers of varying capacities in such a way as to maximize sales from the warehousing facilities.

In a large part, establishment of voluntary groups moves the wholesaler from a mere handler of merchandise on the warehouse level to active participation in the retailer's operations. By helping the retailer operate a better merchandising establishment, the wholesaler does much to insure the continuation of the wholesaler as a specialized independent marketing institution.

Limitations of Voluntary Group Associations

The fundamental limitation of voluntary group activities is the difficulty of getting complete cooperation. It must never be overlooked that these organizations are composed of independent retailers.[45]

> ". . .the average retailer is an individualist. His mind welcomes control as a matter of thing, but his actions resist that control being ordered by anyone else. He yields to this control only as it establishes itself through successful experience."[46]

Lack of strong central control power in the hands of the

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[44] Lewis, <u>Op</u>. <u>Cit</u>., p. 120.

[45] Duncan and Phillips, <u>Op</u>. <u>Cit</u>., p. 216.

[46] <u>Group Selling By 100,000 Retailers</u> (New York: American Institute of Food Distribution, 1936), p. 98. As cited in Duncan and Phillips, <u>Ibid</u>., p. 217.

sponsoring wholesaler frequently results in vital cooperation being stimied. Often times the reluctance of the independent merchant to cooperate or to change present methods of operation severly limits the ability of the group to compete with chain organizations. This is exemplified in the response of a wholesaler who had formed a voluntary chain to the question of what was the principle problem faced in working under such an arrangement. The wholesaler replied, "Supplying the kick in the pants necessary to get the retailer to do for himself what the chain store manager must do to hold his job."[47]

Lack of cooperation in a voluntary group on the retailer's part takes several forms: the primary concern is the failure to cooperate in concentrating orders with the group wholesaler. This is done because of the objection to being limited to one source of supply, protesting regular delivery schedules, and in some cases refusal to cooperate with the cash delivery program. The sponsor of a voluntary group can only exert limited pressure on members reluctant to support the program. If too much pressure is exerted, the retailer is likely to leave the group and the wholesaler finds this is often more harmful than allowing less than full cooperation. A few organizations are able to use their power

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[47] The Voluntary Chain (New York: American Institute of Food Distribution, 3 editions, 1929-1930-1931), as cited in Duncan and Phillips, Ibid., p. 216.

to withdraw the franchise to operate as a member of the group, however most of them are confined to working within the existing group in order to develop greater cooperation.

The apathy of many retailers toward group cooperation and general store merchandising assistance is often shown in the complete indifference shown by the independent toward headquarter's supervisors. In some instances, the retailer's feel the presence of supervisors represent an unwarranted attempt by the central organization to usurp the retailer's authority. To have full cooperation in a voluntary group, supervisors must be employed who have the respect of the individual retailers, so that by working through them the wholesaler can encourage the retailer to improve. Without the authority of a regular chain organization supervisor, the voluntary group supervisor must rely substantially on tactfulness and careful judgement in working with the independent retailer.[48] Until the retailer is willing to accept the advice of such men, the voluntary group suffers under a handicap in respect to the integrated chain.

One of the most significant difficulties which handicaps the voluntary group is the failure of cooperation to cut distribution costs substantially.[49] As was stated previously, the typical voluntary group wholesaler has costs of

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[48] Duncan and Phillips, Ibid., p. 217.

[49] Ibid.

operation which are about three cents on a dollar above the cost of operation of the cooperative group. While this additional cost can be justified from the wholesaler's viewpoint, the retailers frequently try to avoid taking some of the costly services such as advertising, accounting and marketing aids, with the consequence being that the wholesaler is reduced to a supply house, rather than the sponsoring wholesaler. Ultimately, the action of a group of retailers in this manner can substantially weaken the strength of the group. Too frequently the basic understanding of full cooperation as the source of group strength, and in turn the source of the strength of each individual member is forgotten.

The Degree of Success in the Voluntary Groups

To this point the voluntary organizations have not made significant reductions in the combined cost of food distribution on the wholesale and retail levels from the costs established by the chain organizations. However, there is no question that through voluntary cooperation the merchandising ability of the independent retailer has been substantially increased.[50] At the present time the efficient operator of a super market or superette buying from a voluntary can meet the prices of the chains. Currently the chains

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[50] *Ibid.*, p. 219.

have margins varying from 16.5 to 19.5 per cent which generally covers wholesale and retail operations. "This would allow the sponsoring wholesaler of 4 to 5 per cent or 4.[illegible] to 5 cents and the retailer a margin of approximately 12 to 13 per cent or [illegible] to 16 cents."[51] Common practice today is for the independent wholesaler to bill all merchandise to the stores at cost, much the same way as done by the corporate chains. The market operator then pays the wholesaler approximately 5 per cent of merchandise costs to cover the wholesaler's services. This leaves the retailer with a margin of 13 to 14 per cent on the merchandise sold to cover all other expenses and allowing for a reasonable profit, after the wholesaler is paid. General practice is for the wholesaler to make the necessary profit by performing numerous merchandising and staff functions at specified rates for the retail stores.

Obviously, the voluntary organizations of today have passed the experimental or defensive stage of their existence. At the present time well directed voluntaries are able to maintain existing markets and actively compete with chain organizations for new markets. Together with cooperative groups, voluntaries account for — per cent of the nation's food volume. Whereas, ten years ago the affiliated retailers sold only [illegible] per cent of the nation's food sales.[52]

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[51]Converse, Op. Cit., p. 50.

[52]Progressive Grocer, Op. Cit., p. F-13.

In the same period, chain sales based on defining a chain as 11 or more stores, increased their market share only 1 per cent.[53] In the same period sales of unaffiliated independents dropped from 34 per cent of the market to 18 per cent.[54] These figures reveal the large growth of groups has been at the expense of regular wholesalers and independent retailers, rather than at the expense of chain organizations. Another source pointed out that chain store sales constantly accounted for close to 38 per cent of total retail grocery sales.[55]

The voluntary wholesaler of today has gone far in broadening the lines of merchandise carried to better service affiliated retailers. At present, 25 per cent of these wholesalers stock fresh meat, 54 per cent stock produce, 78 per cent stock drugs and 52 per cent stock frozen foods.[56]

This wide line of merchandise shows the degree of responsibility the wholesalers have taken in regard to providing a one stop source of supply for affiliated dealers. In addition to supplying the retailers with a wide range of merchandise, wholesalers have assumed the role of financial advisor to a large degree. A recent report of voluntary wholesalers revealed the following concerning aid to the independent in the form of direct or indirect financial assistance.

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[53] Ibid. [54] Ibid.

[55] Tabher, Op. Cit., p. F-16.

[56] Progressive Grocer, Op. Cit., p. F-16.

TABLE 1

HOW VOLUNTARY GROUP WHOLESALERS AID STORE FINANCING[57]

Give Credit	48%
Assist in Obtaining Lease	48%
Take Lease-Sublet to Retailer	18%
Hold Mortgage	13%
Grant Lease	22%
Find Site for New Stores	59%

The voluntary group wholesaler is an independent businessman closely allied with a group of independent merchants. Available to these retailers the wholesaler offers assistance in various forms to conceive and develop the retail outlet for the wholesaler's merchandise. The cooperation between the independent merchants is greatly dependent upon the success of the wholesaler's program. The concept of voluntary cooperation has strengthened the position of independent businessman, future development is limited almost solely by the number of qualified merchants who are willing to coordinate their efforts in such groups.[58] The increasing competitive nature of the food business has made the groups more conscious of the serious lack of cooperation in existing groups, and efforts are being made to overcome the lack of central control.[59] Clearly the difficulties of forming a cohesive body out of small, often extremely individualistic

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[57] Ibid., p. F-16.

[58] Beckman, Maynard and Davidson, Op. Cit., p. 216.

[59] Duncan and Phillips, Op. Cit., p. 219.

and sometimes incompetent retailers is obvious. Future growth will likely be dependent upon the wholesaler's ability to exercise a greater degree of control over the affiliated dealers so as to better match the chains in special promotions, advertising, and improved retailing facilities.[60]

[60] Palamountain, Op. Cit., p. [illegible].

CHAPTER III

SUPER VALU STORES, INC.

History and Present Status

Super Valu Stores, Inc., the wholesale grocery company sponsoring the Super Valu voluntary group in nine north central states, originated in 187[illegible] in Minneapolis, Minnesota, when the wholesale grocery company of [illegible] and [illegible] was formed. Through a series of acquisitions the firm emerged into the [illegible] and Newell Company in 1[illegible]. [illegible] acceptance of the [illegible] led to the adoption of Super Valu Stores, Inc., as the firm's name in 19[illegible]. In November of 1[illegible] the firm acquired the assets of [illegible] Bros. Co., [illegible], Wisconsin.

Super Valu Stores, Inc. operated as a regular wholesaler until the widespread growth of the corporate food chains caused a revision of company policy in the early 19[illegible]'s. At that time it became apparent to the management of Super Valu that a closer relationship between wholesaler and retailer would have to be established if the independent grocer was to be able to meet the competition of the chain store. With this in mind, the company undertook to develop one of the first voluntary groups in the nation. In 1[illegible] when the firm's wholesale volume was [illegible] than [illegible] million, a voluntary group plan was presented to its 5,400 retail outlets. This plan, based on an affiliation of the wholesaler with the Independent Grocers Alliance was directed at providing Winston and Newell retailers with the advantages of a low cost source of supply as well as providing them with the merchandising assistance vital to the success of the independent food retailer. The wholesaler and its affiliated retail stores continued as members of the IGA voluntary group until 1941 when circumstances dictated Winston and Newell leave the national organization and establish a wholesaler sponsored group. Super Valu was adopted as the trademark name of affiliated retailers, winning such widespread retailer and customer acceptance that the name was adopted by the wholesaler in 1954.

Company Ownership and Organization

Operating as an independent grocery wholesaler, Super Valu is owned by over 1,000 stockholders. Some of these stockholders are also affiliated with the firm as franchised dealers; however, its retailers have no obligation to purchase Super Valu stock, and the majority of the ownership interest is held by individuals having no relationship to the business other than as stockholders.

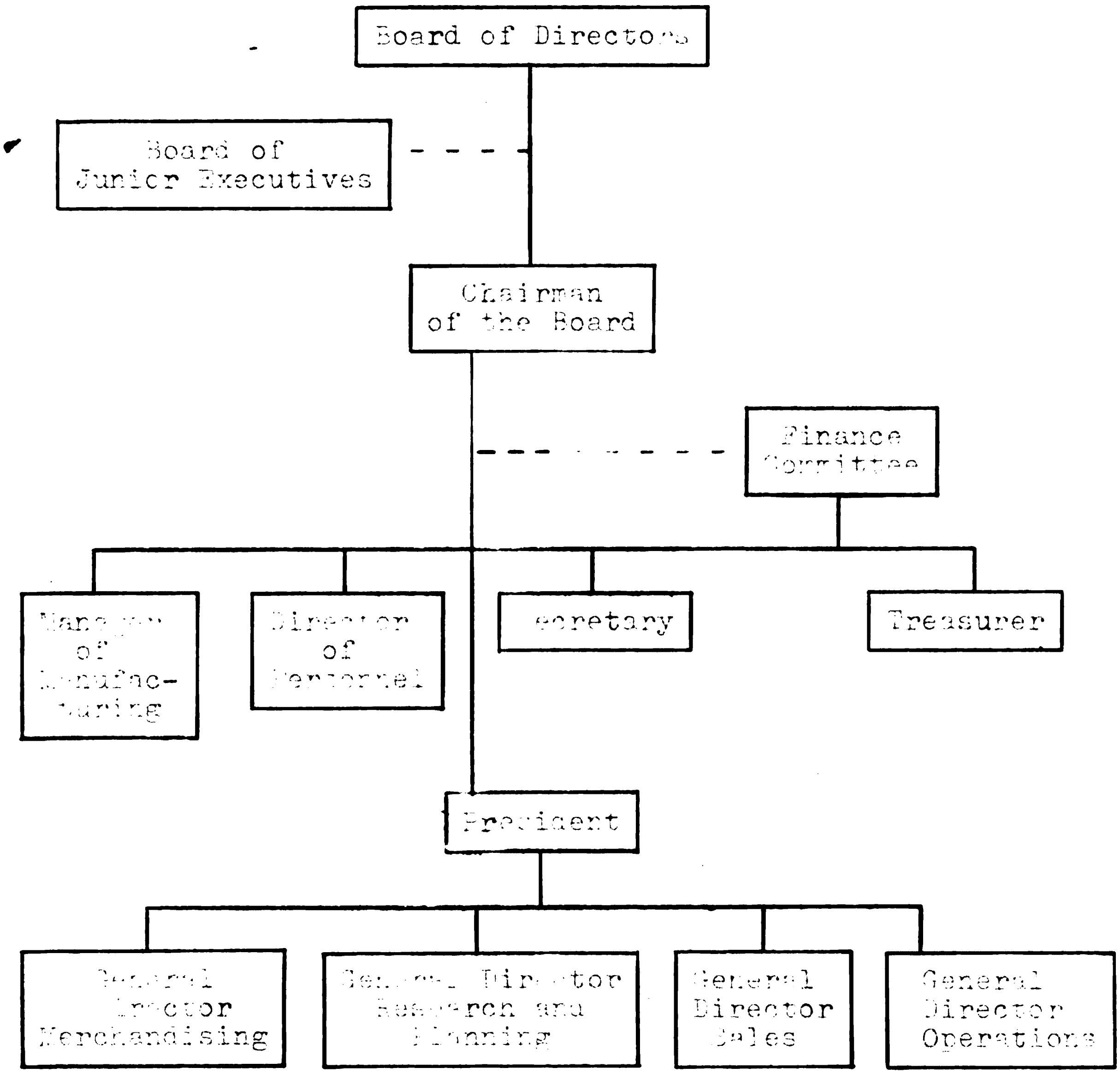
The governing body of Super Valu Stores, Inc., consists of the eight members on the board of directors who establish the long range company objectives and determine basic company policies. Company officers and top management executives are responsible for carrying out the program established by the board of directors. The board of directors is composed largely of the firm's top management executives. The company operates five divisions at present, with each division manager being responsible for local accomplishment of sales and profit goals by directing the company's operations within the geographic area assigned. (Table II) Division managers report to the president in carrying out the company's programs. (Table III) In addition to operating full line warehouses in five cities, the company also operates eleven cash and carry warehouses in its trading area. (Table IV)

Each division in the organization operates substantially as an independent wholesaler in regard to the warehousing and selling of merchandise. The buying function is carried on as a joint operation of buyers in each division and directors of various product groups in the home office. Major decisions in regard to company policy and operations are made at the home office, after consultation with the various division managers.

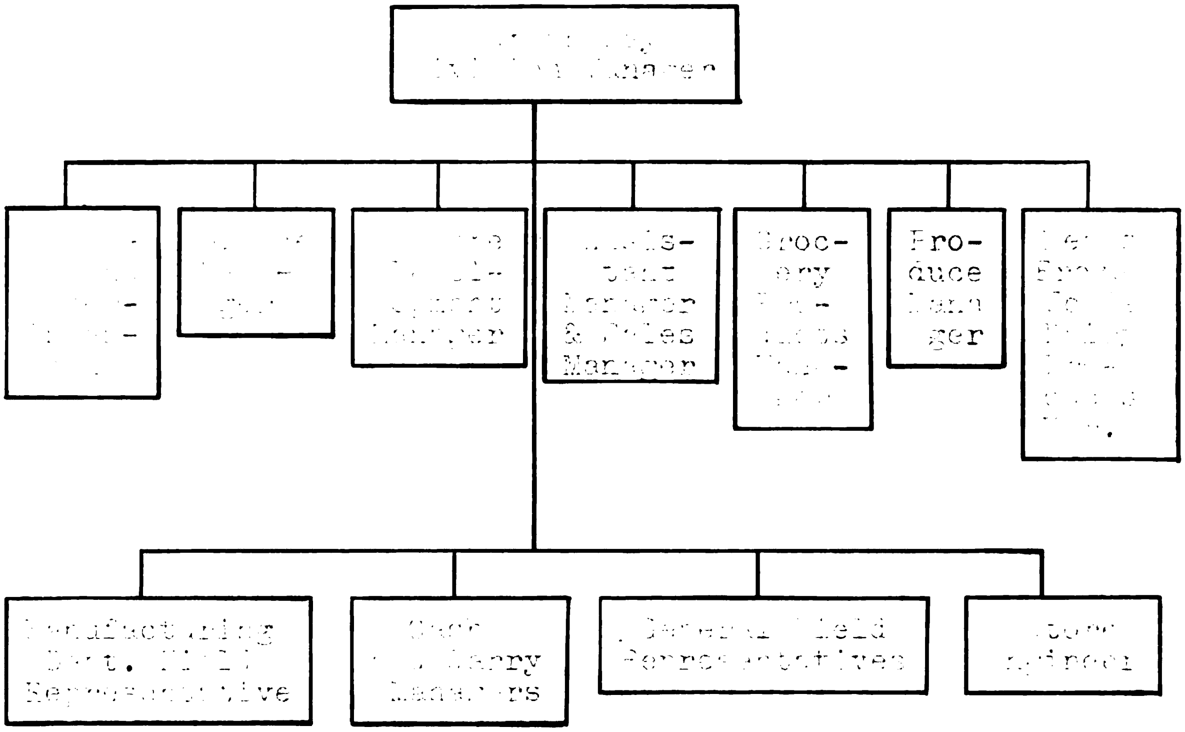
Retailers affiliated with Super Valu are able to receive the retailer services which the particular branch is able to support, plus having the opportunity of special aid in such areas as advertising, accounting, and store engineering [illegible]

TABLE II

ORGANIZATION CHART OF SUPER VALU STORES, INC.

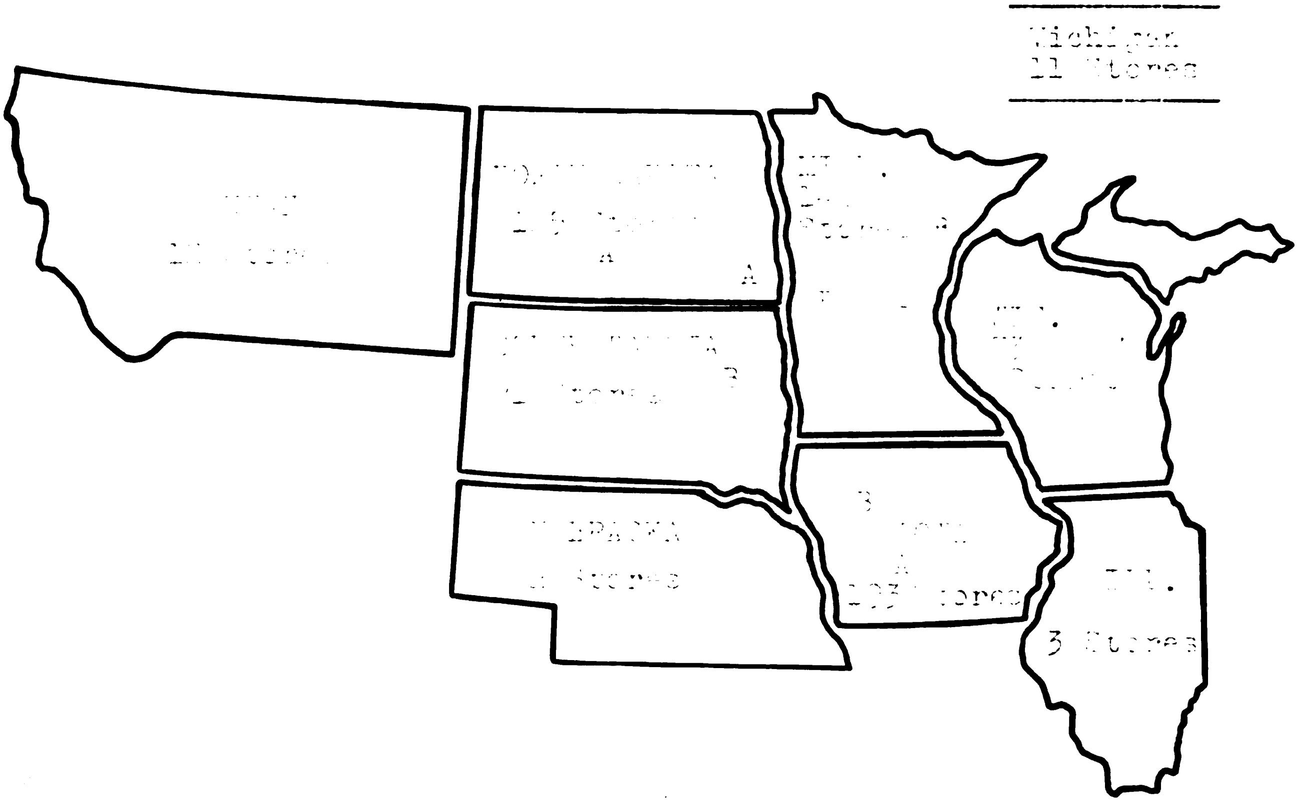


III



MAP - IV

[illegible] STORES, INC., [illegible] AREA



(A) Full Line Warehouses

Bismarck, North Dakota
Des Moines, Iowa
Fargo, North Dakota
Green Bay, Wisconsin
Minneapolis, Minnesota

(B) Cash & Carry Warehouses

Aberdeen, South Dakota (1)
Duluth, Minnesota (1)
Fort Dodge, Iowa (1)
St. Cloud, Minnesota (1)
St. Paul, Minnesota (1)
Minneapolis, Minnesota (3)
Green Bay, Wisconsin (1)
Fargo, North Dakota (1)
Des Moines, Iowa (1)

pendent upon his division for merchandise, the strength of the group makes it possible for him to receive numerous specialized services which one independent wholesaler or branch would be unable to provide.

Super Valu is currently servicing 632 retail stores in nine states. 460 of the stores affiliated with the wholesaler display the SUPER VALU insignia, and 121 display the U-SAVE trademark, the other 51 stores serviced by Super Valu are referred to as contract stores and do not display group identification.

Standards necessary for a retailer to receive a Super Valu franchise are shown in Appendix E. U-SAVE affiliates are those markets which do not meet all the requirements established for Super Valu affiliation. U-SAVE stores generally do a smaller volume of business than the Super Valu markets and lack the complete physical facilities associated with the Super Valu franchised retailers. Contract stores are those serviced by regular line Super Valu warehouses, but which do not display any sign of affiliation with either of the wholesalers sponsored groups. Stores are in the contract group because of the desire of retailers to remain as strict unaffiliated independents or because Super Valu does not feel the retailers offer necessary requirements usually financial, to become affiliated with the organization. Markets in all three groups pay the same price for merchandise sold by the wholesaler and are required to pay the same standard fees for the wholesaler's services.

Handling a complete line of dry groceries, produce, frozen foods, fresh and smoked meat, and a limited number of dairy products the wholesaler **reported** sales of $152,083,260 in 1957. Wholesale sales of this firm have increased from less than $1,000,000 in 1932 when the wholesaler first inaugurated the voluntary group plan to the present $152,083,260 figure. The most rapid growth has been since World War II. In the period 1945 to 1957, the firm's sales have increased twelve times the base year figure. (Table) In recent years, 1956-1957, yearly growth has been at the rate of 15 per cent per annum. During the 1945-1957 period, sales of the wholesaler per affiliated dealer have increased from an average of $3[illegible],000 in 1945 to $228,995 in 1957. The number of affiliated stores has risen from 570 to 662 in the twelve year period under analysis. Acquisition of the Joannes Brothers Company in 19[illegible] caused the number of affiliated markets to increase by approximately 150 in the area serviced by the Green Bay, Wisconsin branch in 1956. During 1957 several of the dealers left the Super Valu organization, reducing the dealers serviced in Wisconsin and Upper Michigan to 84 from the peak of 164 in 1956. Several of these dealers were small volume operators and their leaving the program together with the inception of a complete merchandising program in this division have contributed to the increase in size of the average affiliated dealer's purchase.

[illegible]

[illegible]

[illegible]	[illegible] Sales To Affiliated [illegible]	No. Affiliated Dealers	[illegible]
193[illegible]	Under 1,[illegible],[illegible]	3,[illegible]	
[illegible]	Information	not	available
[illegible]	Information	not	available
[illegible]	Information	not	available
[illegible]	[illegible],[illegible].	[illegible]	[illegible],[illegible]
[illegible]	[illegible],[illegible].	[illegible]	[illegible],[illegible]
[illegible]	[illegible],5[illegible],	[illegible]	[illegible],[illegible]
[illegible]	[illegible],[illegible],[illegible]	[illegible]	[illegible],[illegible]
[illegible]	68,[illegible].	[illegible]	[illegible],[illegible]
[illegible]	[illegible].[illegible],[illegible]	[illegible]	[illegible],[illegible]
[illegible]	[illegible],[illegible].[illegible]	[illegible]	[illegible],[illegible]

[illegible]

Super Valu Stores, Inc. operates as a completely independent entity from its affiliated dealers. The formation of the voluntary group by the wholesaler does not include a transfer of ownership or profits between Super Valu and the affiliated retailers, since each operates an independent business. The voluntary group agreement is basically a contract between the seller and buyer for the sale of merchandise and does not include the transfer of financial liability or profits. While the management of Super Valu is concerned with the profitable operation of its affiliated retail stores, the relationship is much the same as that existing between mutually dependent seller and buyer, rather than that of an owner or partner. Although in this instance the very existence of the whole plan is dependent upon the profitable operation of the retail affiliates.

Primarily the management of Super Valu has the responsibility of performing the wholesaling and service functions in such a way as to earn a return on the stockholder's investment. The growth of Super Valu can be attributed in a large degree to the success of the firm in earning a substantial return on invested capital, while at the same time providing affiliated dealers with a sound wholesaling and dealer service program. ([illegible])

TABLE VI

SUMMARY OF 1957 SUPER VALU OPERATIONS*[1]

Net Sales	152,088,2[illegible]
Gross Profit	6,437,31[illegible]
% Sales	4.2[illegible]
Operating Revenue; Net of expense	2,5[illegible],[illegible]18
% Sales	1.65
Total Profit	8,959,[illegible]
% Sales	5.8[illegible]
Operating Expense	[illegible],577
% Sales	4.4[illegible]
Profit from Operations	[illegible],413,9[illegible]
% Sales	1.[illegible]
Other Income	[illegible]3,[illegible]
Other Expenses	[illegible]37,168
Net Before Taxes	[illegible],[illegible]20,[illegible]03
% Sales	1.3[illegible]
Income Taxes	1,[illegible],[illegible]
Net Income	[illegible]4,[illegible]0[illegible]
% Sales	.61
1957 Inc. in Sales %	1[illegible].[illegible]
1956 Inc. in Sales %	1[illegible].[illegible]
1955 Inc. in Sales %	[illegible].[illegible]
Current Ratio	[illegible].[illegible]
Total Debt to Net Worth	11[illegible].[illegible]
* Earned Net Worth	14.5
Sales to Net Worth	23.6
Sales to Average Inventory	19.9
Average Rec. Times Turned	90.2
Fixed Assets % Total	20.4
% Earnings Pd. Div'ds.	25.8

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*As of December 31, 1956.

*1 Figures compiled from the 1957 annual report.

Super Valu Merchandising Program

The Super Valu Company motto states the firm's obligation to all dealers in the following way:

> It is the impelling motive of Super Valu Stores, Inc. to provide its affiliated dealers with the advantages of low cost warehouse operation, distribution, operating know how and aggressive merchandising so essential to the development of a strong, successful group of modern independently owned food stores.[61]

While Super Valu Stores, Inc. is a wholesale firm, this does not mean that the emphasis of the organization is solely on the buying and warehousing of merchandise. Sponsoring a voluntary group entails a keen understanding of the retailer's problems. The "Think Retail" signs prominently displayed in all Super Valu facilities reflect the merchandising policies of the organization.

Super Valu prides itself on offering affiliated dealers a range of services unsurpassed by any other voluntary group wholesaler in the nation. Retailers are offered a complete merchandising program covering the following departments: groceries, non-foods, health and beauty aids, dairy, produce, meats, frozen foods, equipment, and store supplies. The home office and each branch warehouse have experienced personnel who are responsible for buying all the products in the above groups. Each division performs as a separate unit in regard to the purchase of dry groceries, health and beauty aids, frozen foods, store supplies, meat and dairy products. The home office in Minneapolis acts as a coordinator in regard

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[61] "Super Valu Protection Policy," unpublished, form [illegible]. August 1, 1956, revised.

to the selection of fresh meats and produce, each division sending orders to this office, where the purchases for the firm are combined in such a way as to achieve the best available price on the desired merchandise. All shipments are made direct from the suppliers to the branch warehouses. The home office merchandising staff is also responsible for the general merchandising policies of the firm, and develops the major promotions which are used company wide.

Meat Program

Super Valu's meat program is directed toward securing for affiliated stores the advantages of group buying and central merchandising assistance, while allowing the individual market substantial latitude in regard to choices of product. Retailers are able to order smoked and prepared meats on regular order forms from the branch warehouses. Merchandise sold by this manner is delivered by Super Valu trucks. Fresh meats and other products not carried in the branch warehouses are ordered by the retailers via telephone, from each of the division warehouses. Each day the orders from all divisions are combined in the home office. These combined orders are then used by company buyers in selecting the source of supply for retailer requirements. In selecting the source of supply consideration is given to the delivery schedule of the packers, to the grade of product, and to the price. Once the sources of supply are determined, Super Valu employed buyers select the meat in actual visits to the packing plants.

The Super Valu meat program allows retailers complete freedom in regard to grade of meat merchandised through individual retail stores. By concentrating meat purchases, either on the branch warehouse level, or in the packing plants, Super Valu is able to receive discounts comparable to those received by cahin organizations. These reductions in cost are passed on to the retailers.

The meat merchandising program offers numerous aids to affiliated retailers in cutting, packing, pricing, and displaying of merchandise. Cutting tests are made by the wholesaler to aid the retailer in improving the gross profit of the meat operation. Packaging and displaying suggestions are made available from men specially trained in self-service operations. Each week a bulletin is sent to the retailers showing current market information, competitors' retail selling prices on different cuts and grades of meat, and other information directed toward giving the store a profitable retail meat operation.

Produce Program

Each division is equipped to offer affiliated stores a complete variety of fresh fruits and vegetables. Orders are handled by telephone, with the warehouse calling the stores at specific times of the week. Delivery is made the day following the order by the company's refrigerated trucks.

Buyers in the home office direct the selection of produce from the nation's markets for the various branch warehouses. The home office maintains contact with growers and buyers in various parts of the nation. Produce assistance in each division offers the affiliated retailer a complete program in regard to buying, trimming, packaging and selling of fresh fruits and vegetables. Super Valu was one of the nation's first organizations to stress the selling of pre-packaged produce and the benefits of this experience is made available to the retailers participating in the produce program. Each week the retailers receive a list of the items available from the warehouse, showing suggested retail prices and profit margins. Also various point-of-sale materials are made available to the retailer.

Frozen Food Program

Super Valu has a frozen food department at each branch carrying fruits, vegetables, fish, sea foods, poultry and specialty items. Retailers order frozen foods from a special frozen food catalogue. The merchandise is delivered to the stores in insulated, dry iced containers, called shamrocks, with regular grocery and produce deliveries.

Having specialists who devote full time to the buying of frozen foods, the wholesaler can offer its affiliated retailers a wide variety of merchandise in various price and quality lines. All merchandise sold to the retailers has a suggested retail price competitive with other leading retail organizations in the Super Valu marketing area.

In addition to acting as the buying agent for the frozen food needs of its affiliated retailers, Super Valu representatives assist dealers at the retail level by establishing stock patterns in the display cases. Also the wholesaler works actively with retailers in obtaining equipment for the sale and storage of the merchandise in the stores.

Health and Beauty Aids

Health and beauty aids play an integral part in the non-food portion of the Super Valu merchandising program. Each warehouse has available for the retailers a complete line of health and beauty aids. Merchandise in this category is sold to the retailers prepriced with the tax paid by the wholesaler. When health and beauty aids are purchased from Super Valu, the retailer is able to save 10 per cent to 15 per cent on the price offered by rack jobbers. Merchandise in this commodity group is made available to retailers in a special order form showing cost, suggested retail prices and gross margins. In addition to health and beauty aids the wholesaler is constantly viewing the market in search for other non-food items suitable for food store marketing.

The Overall Merchandising Operation

The merchandising program described in the preceeding portion of this paper is the core of the Super Valu voluntary group's success. Particular emphasis in the organization centers about the right buying of merchandise, low cost warehousing and transportation, and merchandising assistance to aid the retailers in the sale of merchandise to the consumer.

Warehousing and Transportation

Without low cost warehousing and transportation the cost advantages of voluntary group participation cannot be realized. Super Valu is currently warehousing in five single level buildings which have complete facilities for produce, meats, frozen foods, dry groceries, health and beauty aids and all the other products sold by Super Valu. Pallets, fork lift trucks, tow lines, and electrically controlled carts are all integral parts of the modern warehousing operation maintained by Super Valu. Reporting figures to an organization of chain and independent warehouses, Super Valu has been among the leaders in tons of dry groceries moved per man hour. Recent company figures report an average of 1.80 tons per man hour during the first quarter of 1958. The Fargo Division, with over 2.00 tons per man hour, was the nation's leader in 1957.

Transportation of all products shipped from Super Valu warehouses is done in company operated trucks which are equipped with both refrigeration and heating units to protect the merchandise while in transit. The rates charged for transporting merchandise favor high volume orders, with 15 per cent reductions being made for truck load purchases of over 30,000 pounds. Normally, the Super Valu freight rate is about 50 per cent of the rate charged by common carriers.

The Service Aspect of the Super Valu Program

In addition to providing affiliated retailers with the merchandising program and the efficient warehousing and transportation facilities mentioned previously, Super Valu performs a vast number of services or staff functions for the independent merchant. The company feels that no one independent retailer can perform effectively the numerous staff functions necessary in the operation of a modern food market. By performing various functions at the divisional or home office level, Super Valu frees the dealers so each one may spend more time in actual market operation. Also, the firm performs numerous functions which no one independent retailer could perform because of time, money or the special skills required. All the service aspects of the Super Valu program are directed toward performing for the independent merchant all the functions which the headquarters or divisional organization in a chain perform for the chain store manager at the same cost or less. Services offered affiliated retailers are as follows: store supervision by company field men, company bulletins, personnel selection training, retail accounting, store engineering, store development, retail advertising and financing.

Supervision

Each Super Valu division has a staff of trained and experienced field representatives, who have owned or managed a retail food store, and these men call on the member stores regularly. The territory for each field man includes 15 to 20 retail accounts. These men are not salesmen, but are employed by the wholesaler with the expressed purpose of providing affiliated retailers with assistance in store management. Before assignment to a specific territory, the field men are given an extensive six month training course, dealing with all phases of market management, and are made completely familiar with the Super Valu program. Beside the regular supervisors who are trained to handle general merchandising problems in all departments, the company employs specialists on the divisional level, to aid retailers in operating the meat, produce, frozen food, and dairy departments. The regular field men are also responsible for providing effective communication between the wholesaler and affiliated retailers. While field men give assistance to the retailers in all aspects of operation, the majority of the supervisor's time is spent in developing special promotions and advertising programs for affiliated stores.

Company Publications

To provide retailers with a constant source of information on current food topics and general market news, Super Valu publishes a number of bulletins in each division dealing with specific market departments. In addition, the home office publishes the monthly company digest.

In matters dealing with the grocery department and general retail operations, each division prints the Profit-

Builder Bulletin. This bulletin contains information on new products, market conditions, special promotions, suggested items for retail advertising, and a weekly communique from the division manager. The Profit-Producer, the Meat Merchandiser, and the Frozen Food Flash are published weekly by the perishable departments in the various divisions. These bulletins contain current market information, items suggested for advertising, and comments by the division department managers. The Super Valu Digest published monthly by the home office and distributed company wide, is sent to all affiliated dealers. This magazine contains letters from Super Valu dealers, articles by company executives, and suggestions for improving the Super Valu organization.

In all bulletins and publications the company aim is to build a better understanding between affiliated dealers and the wholesaler as well as improving the operation of the independent retail markets.

Training

All field representatives in the organization have received special training courses qualifying them to conduct instore training programs for retail food personnel. A selection and training kit is available which contains a personnel selection manual, a training manual for checkers, a manual for carry out boys, an employee indoctrination folder and application blanks.

In addition, the wholesaler is active in training men in the operation of the produce and meat departments; each division conducts these schools. In 1957, 356 people were trained in division level meat clinics. The courses included meat cutting, wrapping, displaying, merchandising and pricing. In 1958, similar schools will be held to provide training in produce trimming, wrapping, displaying, merchandising and pricing. Super Valu places special emphasis on retail level handling of perishables because of the importance of these departments to affiliated markets from the standpoint of attracting new customers to the store and keeping them as customers thereafter.

Accounting

The necessity for complete and accurate records to every retail food merchant has been recognized by Super Valu for many years. The company maintains a complete retailer service department which is equipped to handle the auditing, accounting, tax returns and records for its dealers. The accounting service operates as follows:

All new accounts are given a careful audit and a starting balance sheet is established on which to base future accounting records. A report system is established whereby daily information is combined weekly and forwarded to the central department where all the book work is done. The records forwarded include all purchases, sales, and expense information. Periodically inventories are taken in the stores and forwarded to the accounting department. Utilizing all the information forwarded by retailers, the accounting department periodically prepares profit and loss statements for member stores. The figures developed are used by the wholesaler and retailers to analyze the operations of the retail stores. Accounting information is kept confidential and is identified only by store number. Periodically comparative operating statements are given to each retailer showing how his figures compare with other Super Valu retailers.

In addition to handling the general accounting, the retail service department is equipped to prepare all the necessary tax reports for affiliated retail stores.

Store Engineering and Location

Super Valu maintains a store engineering department which is experienced in store layout and equipment needs of the modern super market. The store engineering department can render a complete installation service to affiliated retailers covering store layout and construction supervision. Plans furnished through this department can be used for the actual construction or remodeling estimates by the retailers.

Through purchasing equipment at the wholesale level, Super Valu is able to obtain the same discounts given chain organizations. Savings of up to 50 per cent can be obtained by having equipment shipped direct from the manufacturer to the retailer and having the billing processed through Super

Valu. In addition to obtaining savings on equipment, the engineering department is able to aid retailers in selecting the source of supply for equipment needs in light of the experience gained from visits to the equipment manufacturing plants and actual installation work.

The home office in Minneapolis has a special department for retail development work. Approval of locations is done by the firm's senior officers with the aid of comprehensive marketing research. Site selection, construction, leasing and financing are all integral parts of the store development program at Super Valu. Preliminary work in connection with choosing new sites is done in each division, however all major store developments are processed and analyzed at the home office.

Advertising

Super Valu advertising service provides affiliated retailers with mat service, nine direct mail circulars a year, suggested items for the retailers advertising program, special promotion materials, window posters, display cards and radio commercials.

Super Valu headquarters operates the mat service on a break even basis as a part of its merchandising service to franchised dealers. The mats are prepared weekly by the home office and sent to all affiliated stores subscribing to the service. As developed by the home office the mats indicate major items to be featured and the general design of the weekly ad. Each division then suggests the local price of the items placed in the ad by the home office, as well as listing other items appropriate to a particular area.

Retailers have no obligation to follow the program developed by the home office and division, but have the option of adjusting the advertising to take advantage of local price conditions and also to substitute items if necessary. Through use of these mats an attractive, effective advertising program is available to the independent retailer at a cost representing only a fraction of the composition investment. In addition to the regular mat service, special mats are available for outstanding retail events.

The direct mail circulars available to the retailers, feature nationally known merchandise and are available nine times a year. Through group participation Super Valu is able to include special promotions in the advertising, such as appliances, automobiles, and dictionaries. Each division also offers retailers window banners featuring advertised items in each department. Local tie-in radio commercials can be purchased from Super Valu as part of the advertising program for use within a retailer's trading area. In addition, special circulars developed by the firm are available for retailers needing advertising assistance of a particular nature to promote a sale or to build volume in a market.

The advertising program makes it possible for the independent merchant to create impact equal or better than the local chain competitor, while paying for only a fraction of the total cost.

Financing and Leasing

In addition to providing affiliated dealers with merchandise and numerous services, Super Valu has found it necessary to aid the establishment and growth of independent businesses by financing individuals who have shown ability in market management. Many of the present dealers were financed initially by the wholesaler. At present, Super Valu is providing many of its dealers with financial assistance of one form or another. The financial role of Super Valu entails short term loans to established retailers, financing and leasing of fixtures, and leasing of buildings to independent merchants.

To aid retailers who lack necessary operating funds the wholesaler frequently makes short term, unsecured demand notes. The interest on such money is 7 per cent per annum.

In regard to fixtures, Super Valu has two plans. First, established merchants or new retailers can purchase fixtures from Super Valu by paying 25 per cent of the total purchase price down and paying the balance in five years. In addition, Super Valu has a plan whereby newly established markets are equipped with fixtures which the wholesaler leases to the merchant. Under such a plan merchants have an opportunity to buy the fixtures at their depreciated value any time before they are seven years old. Under the lease plan the wholesaler merely signs the leases for fixtures, with the actual investing being done by an outside firm. The cost of interest or rent in either case is determined by the rates charged by the commercial lending firms from which Super Valu obtains the necessary funds.

Super Valu has a subsidiary corporation to handle the leasing of new markets. Under this plan the wholesaler selects the location, arranges for construction of the building, negotiates and signs the lease with the owner. (Appendix A) Then the cost of the lease is marked up by 10 per cent and the premises are subleased to a retailer. (Appendix B)

With the increasing capital requirements at the retail level, the number of individuals who have sufficient funds to finance land acquisition, building construction, fixtures, stock and operating capital are limited. Super Valu presently leases 64 of its 67 markets and they account for 45.1 per cent of the firm's volume. Also, the firm operates nine corporate owned markets.

The Cost of the Super Valu Program

Super Valu operates as a cost plus wholesaler. All merchandise handled or billed through Super Valu is sold to retailers at the wholesaler's cost or market in the case of perishables. Cost in the Super Valu organization is defined as:

> Cost is the manufacturers invoice price, plus transportation cost to supply depot, if any, less any and all quantity discounts, trade discounts, or free deals with the exception of advertising allowances and with cash discounts adjusted to 2 per cent.

In addition to handling merchandise on a cost plus arrangement, rebates are given to dealers. These rebates cover fair trade rebates on merchandise which manufacturers won't allow in the order form below fair trade wholesale cost, the small allowances given on canned goods, and rebates on merchandise sold under the private label trademark. These rebates amount to approximately .17 of 1 per cent of each retailer's dry grocery purchases.

Because all merchandise handled by Super Valu is sold to retailers at cost, the wholesaler charges fees to cover the cost of warehousing, delivery and other services extended to the independent merchants. Fee schedules for a typical division are shown in Tables [illegible] to XI.

Requirements for Retailer Affiliation

Each Super Valu division maintains a careful analysis of the food market in each locality within the company trading area. Specific individuals within the organization are assigned to new store and new account development. If a retailer is interested in an affiliation with Super Valu Stores,

[illegible]

[illegible]

[illegible]

Grocery Fee Schedule

[illegible] - $[illegible] per week (Including Produce)

[illegible] - (F.[illegible]. Warehouse)

[illegible] Minimum [illegible] per week
[illegible] to $1,[illegible]
[illegible] $1,501 to [illegible]
[illegible] $[illegible],[illegible]01 to $[illegible]
1[illegible] over $[illegible],50[illegible]

Drop Shipments - [illegible] cash discount adjusted.

Meat Fee Schedule

Based on average total retail store sales per period.

Weekly Retail Sales:

From	To	Maximum Fee Amount	Accumulated Minimum
[illegible]	[illegible] weekly	.[illegible]	
[illegible],[illegible]00	[illegible]	.[illegible]	[illegible].
[illegible],[illegible]00	[illegible]	.2[illegible]	[illegible].
[illegible]	[illegible]	.[illegible]	3[illegible].
15,[illegible]	[illegible]	.[illegible]	[illegible].

Over $[illegible],[illegible] weekly - .[illegible] continuous

Meat Supplies: Mark up basis - [illegible] per cent

[illegible]

[illegible] DIVISION

Frozen Food Fee Schedule

Minimum - $[illegible].50 per week

The weekly charge for any given week will be computed on the current week's purchases from the warehouse, not including direct shipments, according to the following schedule:

Weekly purchases up to $5[illegible] ....10[illegible]
Weekly purchases of $51.[illegible] to $150.[illegible]................... 8[illegible]
Weekly purchases of $1[illegible]1.[illegible] to $[illegible]5[illegible]................... 6[illegible]
Weekly purchases of over $[illegible]..................... 5[illegible]
Weekly purchases of over $[illegible]..................... 4[illegible]

[illegible] Direct Shipment

Produce Fee Schedule

[illegible] - Included with Grocery   BAY - ([illegible] Warehouse)

Cost-Plus:

Weekly purchases up to $[illegible].......................12%
Weekly purchases $[illegible] to $[illegible]....................10%
Weekly purchases $[illegible] to $[illegible] 8%
Weekly purchases over $[illegible]........................ [illegible]

Minimum Weekly Charge:

[illegible] Deliveries $15.[illegible]   1 Delivery $8.[illegible]

Direct Shipments:

1. Growing area to one retailer - 1[illegible] per unit
   Growing area to two or more retailers - 1[illegible] per unit

[illegible]. Fee on soft fruit:
   Growing area to one retailer - 3¢ per pkg.
   Growing area to two or more retailers - [illegible] per pkg.

3. Watermelon:
   Growing area to one retailer - [illegible] cwt.
   Growing area to two or more retailers - [illegible] cwt.

Rebate
All net profit in excess of [illegible] on produce operation will be rebated to the dealers in proportion to their purchases.

TABLE VIII

[illegible] VALLEY GREEN BAY DIVISION

Frozen Food Fee Schedule

Minimum - $[illegible].50 per week

The weekly charge for any given week will be computed on the current week's purchases from the warehouse, not including direct shipments, according to the following schedule:

Weekly purchases up to $5[illegible].[illegible] .... 10[illegible]
Weekly purchases of $51.[illegible] to $150.[illegible] .... 8[illegible]
Weekly purchases of $1[illegible]1.[illegible] to $[illegible]5[illegible].[illegible] .... 6[illegible]
Weekly purchases of over $[illegible]5[illegible].[illegible] .... 5[illegible]
Weekly purchases of over $[illegible].[illegible] .... 4[illegible]

[illegible] Direct Shipment

Produce Fee Schedule

N.C - Included with Grocery   BAY - ([illegible] Warehouse)

Cost-plus:

Weekly purchases up to $[illegible].[illegible] .... 12[illegible]
Weekly purchases $[illegible].[illegible] to $[illegible].[illegible] .... 1[illegible]
Weekly purchases $[illegible].[illegible] to $[illegible] .... 8[illegible]
Weekly purchases over $[illegible].[illegible] .... [illegible]

Minimum Weekly Charge:

[illegible] Deliveries $1[illegible].[illegible]   1 Delivery $[illegible].[illegible]

Direct Shipments:

1. Growing area to one retailer - [illegible]¢ per unit
   Growing area to two or more retailers - 1[illegible]¢ per unit

[illegible]. Fee on soft fruit:
   Growing area to one retailer - 3¢ per pkg.
   Growing area to two or more retailers - [illegible]¢ per pkg.

3. Watermelon:
   Growing area to one retailer - [illegible]¢ cwt.
   Growing area to two or more retailers - [illegible]¢ cwt.

Rebate
All net profit in excess of [illegible] on produce operation will be rebated to the dealers in proportion to their purchases.

[illegible]

[illegible]

Accounting Fee Schedule

Fee billed on four-week period against Sales for four-week periods:

Sales 4-Week Per.		Fee 4-Week Per.
Sales to $4,615	-	[illegible]
$4,615 to $6,9[illegible]	-	[illegible].75
$6,9[illegible] to $9,[illegible]	-	[illegible]
$9,[illegible] to $12,[illegible]	-	[illegible]
$18,4[illegible] to $[illegible]	-	[illegible]
$[illegible] to $44,[illegible]	-	[illegible]
Over $44,[illegible]	-	[illegible]

$[illegible] per period for each additional Department P & L Statement required.

Payroll Tax Reports Ser.:

Federal Reports	State Reports in Addition to Federal
$[illegible] per Period	$[illegible] per Period

Sales Tax Ser.: $5.[illegible] per Quarter

Report Writing Ser.: Approximately $[illegible] per Period

Income Tax Ser.: (Incl. Federal and State and declaration of estimated tax.)

Minimum Fees:

$1[illegible]. per store for individual, Federal and State returns.
$15. per store for Federal and State Partnership returns plus $10 for each individual return.
$[illegible]. Minimum charge for Corporations.

Portion of year work or additional work may require an extra charge.

TABLE X

SUPER VALU GREEN BAY DIVISION

Green Bay Freight Rates

	Sugar and Flour	Groc.	Prod.	F. Food Meat Prov. Perish.	Potatoes
City & De Pere	.1[illegible]	.12	.14	.2[illegible]	.14
1. Up to 15 Miles	[illegible]	.25	[illegible]	.37	.20
2. 16 to 50 Miles	[illegible]	.38	.30	.45	.25
3. 51 to 100 Miles	[illegible]	.48	.40	.60	.25
4. 101 to 150 Miles	[illegible]	.48	.50	.70	.25
5. Over 150 Miles	[illegible]	.50	.55	.75	.25

Engineering Fee Schedule

Equipment Purchases:

10% - $1[illegible],[illegible]
[illegible] - [illegible],001 - $4,[illegible]
[illegible] - 5,001 - 6[illegible],[illegible]
5% - [illegible],001 - and over

Plans for new or remodeled store - $500

Fee will be deducted from percentage charges if equipment is purchased from Super Valu Stores, Inc.

TABLE XI

[illegible] DIVISION

Advertising Fee Schedule

Mat Service

Size	Cost
Full Page (8 col. x [illegible])	[illegible] per
[illegible] col. x [illegible] inches	1.75 each
4 col. x 15 inches	1.5[illegible] mat

Hand Bills

Postage Included - Retailer's Name Imprinted

Cost - .5¢ each

Spot Announcements for Radio

Length	Cost
1 minute	Free
2 minutes	Free

Point of Sale Material

Size	Cost
[illegible]' by 3' Window Posters	[illegible]¢ each
18" by 24" Window Posters	15¢ each
Display Cards	[illegible]/$1.00

Inc., preliminary investigation on the divisional level will be made and the retail fills out a New Account Application (Appendix C) which is sent to the home office for approval or rejection. If accepted as a Super Valu franchise dealer, the retailer must sign the "Super Valu" Retailer Agreement (Appendix D) and the Super Valu Protection Policy (Appendix E). Requirements for retailer participation in the group center about the following seven points.

(1) Full retailer agreement with the standards of performance specified in the Super Valu Protection Policy.

(2) Concentration of purchases is the basis of the successful Super Valu Voluntary Group. All retailers are required to purchase all dry groceries, meats, frozen foods and produce from the warehouse. Super Valu wants as near as possible warehouse concentration equal to 55 per cent of total retail sales.

(3) The retailer must display the Super Valu name prominently on the independent market, and also in the advertising done by the merchant.

(4) The retailer agrees to cooperate with the warehouse in regard to unloading the trucks at the stores. Also, the retailer must make sure orders are in the warehouse on specified days of the week.

(5) Field representatives are to be given full retailer cooperation in regard to suggestions and counsel in market operations. Without cooperation supervision can be of little help to the retailer.

(6) Each order sent in by the retailer is to have a blank check included. At the end of each week the charges for a particular market will be totaled and the retailer's check filled in for the total amount of the weeks purchases.

(7) Each market bearing the Super Valu is required to cooperate with all company or warehouse promotions. Experience has proven that suggested pro-

motions are successful, but full retailer coopera-
tion is required in regard to stock of merchandise,
display and price.

Results of the Super Valu Program

In appraising the success of the Super Valu program, the best measure obtainable is the profit and loss statement of a Super Valu market. The continued growth of the wholesaler is dependent upon the ability of affiliated retailers to compete successfully for the consumer's dollar with the corporate chain store. Table XII shows the monthly statement of an independently owned and operated Super Valu market for July of 1957. This market is typical of the larger markets of the Super Valu organization. The total costs of the entire Super Valu merchandising and accounting program for this market in an average months operation, amounted to [illegible].47 per cent of sale or $1,[illegible].43. This includes accounting, freight, produce, meat and grocery fees by Super Valu. Assuming a [illegible]5 per cent of retail sales purchased from the warehouse, which is the Super Valu standard, the $1,94[illegible].43 is equal to 4.47 per cent of the $4[illegible],[illegible] purchases.

[illegible]

[illegible], INC. [illegible] DEPARTMENT

Monthly Statement of Account No. 86[illegible]
From 6/[illegible]9/57 to [illegible]/[illegible]7/5[illegible]

Department	Sales	Per Cent of Total
Grocery	$46,3[illegible]9.[illegible]1	59.80
Meat	[illegible],965.7[illegible]	29.1[illegible]
Produce	8,160.[illegible]4	1[illegible].[illegible]
Delicatessen	1,[illegible]69.15	1.[illegible]
Total	[illegible]7[illegible],5[illegible]4.[illegible]6	10[illegible]
	Gross Profit	
Grocery	$ 6,891.[illegible]	14.8[illegible]
Meat	5,35[illegible].[illegible]	25.48
Produce	3,[illegible]26.10	37.[illegible]
Delicatessen	1,0[illegible].[illegible]	[illegible].4[illegible]
Total	$16,3[illegible]1.[illegible]	[illegible]1.3[illegible] [illegible].
	Controllable Expense	Per Cent of Sales
Advertising	$ 1,[illegible].[illegible]	1.6[illegible]
Freight	8[illegible]1.[illegible]*	1.[illegible]
Laundry	[illegible].[illegible]	.11
Light-Power-Water	4[illegible].[illegible]	.5[illegible]
Repairs	[illegible]3.[illegible]	.[illegible]6
Total Salaries	[illegible],[illegible].[illegible]3	5.[illegible]
Supplies	[illegible].[illegible]	.[illegible]8
Laundry	[illegible].[illegible]	.[illegible]
Payroll Taxes	[illegible].[illegible]3	.[illegible]
Total	$ 7,4[illegible].[illegible]3	[illegible].4[illegible]
Uncontrollable Expense		
Accounting	[illegible].[illegible]*-	.[illegible]
Store Improvement	[illegible].[illegible]	.[illegible]
Depreciation Expense	14[illegible].[illegible]	.1[illegible]
Insurance Expense	87.[illegible]	.11
Interest Expense	[illegible].[illegible]	.[illegible]
Rent Store	1,741.[illegible]	1.7[illegible]
Rent Fixtures	1,[illegible].[illegible]	.[illegible]

TABLE [illegible] (Continued)

Service Fee Grocery	$ 537.0[illegible]*	.68%
Service Fee Rent	[illegible].8[illegible]*	.[illegible]
Service Fee Produce	[illegible].13*	.[illegible]
Taxes Property	[illegible].84	.1[illegible]
Total	$ 4,8[illegible].64	6.1[illegible]
Total Operating Expense	$1[illegible],[illegible].07	15.[illegible]
Operating Profit	$ [illegible],[illegible].15	[illegible]

* Super Valu Merchandising Program Costs.
1 Accounting Control [illegible] Part of the Program.

CHAPTER IV

THE GODFREY COMPANY

Company History

In 1860, Edwin R. Godfrey arrived in Milwaukee with less than 50 cents in funds. Ten years later he founded the dairy and produce wholesale company which has grown into the present Godfrey Company. During the first 76 years the firm distributed from warehouses located in downtown Milwaukee. In 1949 the growth and development of the wholesaler necessitated greater and more efficient warehousing facilities. The firm built in this year, a 145,000 square foot one story railroad serviced warehouse in suburban Milwaukee. Since then the warehouse has been increased by 25,000 square feet for dry groceries, a 40 per cent increase in frozen food storage area, two produce coolers, and overall expansion of dairy and meat facilities. Today the Godfrey Company services the produce, dry groceries, frozen food, meat and dairy needs of affiliated markets from this warehouse.

The founder of the Godfrey Company continued active in directing the operations of the firm until retirement at the age of 80. At that time the management of the company passed on to four sons of the founder, the second generation of the Godfrey family. The youngest of these four sons, James D. Godfrey, headed the firm until his death in 1949. During the tenure of James D. Godfrey, the wholesale grocery company played a vital role in the formation of the Independent Grocers Alliance. In 1926, under the leadership of Mr. Godfrey, the firm and twenty-five affiliated dealers combined their efforts to form the embryo of the present I.G.A. affiliated group. Today the Godfrey Company is the nation's second largest wholesaler utilizing the I.G.A. plan.

Ownership and Organization

The third generation of the Godfrey family is now directing the operations of the firm. Four of the seven members on the board of directors are descendents of the founder and the family holds three of the four major executive positions. Operating as a corporation the firm is authorized to issue 5,000 shares of 5 per cent cumulative $100 par common stock, and 200,000 shares of $10 par common stock. Outstanding at the present time is over 80 per cent of the preferred stock and approximately 40 per cent of the common stock. The Godfrey family today retains virtually complete ownership of the firm. Thus, eighty-eight years after the formation of the Godfrey Company, the founding family retains both control and management.

Marketing Position and Trading Area

The firm first inaugurated the I.G.A. plan of operation in the Milwaukee area in 1926. At that time the firm had a total of 2,500 retail accounts purchasing $2 million worth of grocery products from the wholesaler. In 1947 the Godfrey Company reported sales of $45,535,079 to 171 retail accounts. Table XIII shows the growth and development of the firm in regard to annual sales and number of accounts. Table XIV shows a summary of 1957 company operations.

The firm's marketing area is centered in metropolitan Milwaukee and Southern Wisconsin. Of the accounts serviced, 150 are I.G.A. affiliates, the other 21 are Sentry Super Markets. I.G.A. affiliates are those markets serviced by the wholesaler which do not have the complete physical facilities and variety of merchandise found in super market outlets. Stores in this category are referred to as regular I.G.A. affiliates or I.G.A. Foodliners. While the facilities of these markets may not be adequate to offer the type of plant and variety of merchandise usually associated with super market outlets, the volume in many instances qualifies the markets for super market status. The Sentry Markets are new, modern, fully equipped super markets, with substantial parking facilities. These markets, six wholesaler owned and fourteen independently owned, are capable of maintaining a volume of one million dollars or more per year. Godfrey policy requires that Sentry Markets be competitive in regard to physical facilities and variety of merchandise with any market in the competitive area. Under no circumstances is the retail sales area of Sentry

TABLE XIII

GODFREY COMPANY GROWTH ANALYSIS*

Year	Wholesale Sales	Number of Affiliated I.G.A. Stores
1918	$ 6,510,000	
1925	5,900,000	25
1930	5,200,000	
1935	3,860,000	
1940	4,420,000	
1945	9,660,000	
1946	12,000,000	
1947	13,610,000	365
1948	15,080,000	365
1949	15,460,000	365
1950	16,730,000	365
1951	18,860,000	365
1952	22,040,000	365
1953	24,430,000	290
1954	27,260,000	278
1955	29,440,000	241
1956	39,510,000	220
1957	45,530,000	170

*Source 1957 Annual Report.

TABLE XIV

SUMMARY OF 1957 GODFREY COMPANY OPERATIONS*

Net Sales	45,535,079
Gross Profit	2,941,212
% Sales	6.5
Operating Revenue; Net of Expense	94,890
% Sales	1.1
Total Profit	3,436,002
% Sales	7.55
Operating Expense	2,788,226
% Sales	6.12*[1]
Profit from Operations	647,776
% Sales	1.42
Other Income	32,406
Other Expenses	114,741
Net Before Taxes	565,441
% Sales	1.24
Income Taxes	284,700
Net Income	280,741
% Sales	0.62
1957 Inc. in Sales %	11.53
1956 Inc. in Sales %	13.42
1955 Inc. in Sales %	10.80
Current Ratio	2.06
Total Debt to Net Worth	93.4
% Earned Net Worth	14.4
Sales to Net Worth*	23.4
Sales to Avg. Inv.*	25.1
Avg. Rec. Times Turned	144.0
Fixed Assets % Total	18.9
% Earnings Pd. Div'ds	26.4

*Figures compiled from the 1957 annual report.

*[1] The operating expense is 6.12 including the expenses in the retail markets owned by the firm. On the warehouse level the operating expense is approximately 3.82 per cent of sales.

Markets to be less than 8,000 square feet. Whether a market is owned by an independent merchant or by the Godfrey Company, the name Sentry is displayed on the store and in all advertising. No effort is made to bring the name of the real proprietor before the public. I.G.A. private label merchandise is sold through each of the three types of outlets.

Merchandising Policy

In May, 1955 the Godfrey Company made a significant change in company merchandising policy, switching from a regular line wholesale to a cost plus wholesale operation. This was done because the management saw a need for minimizing the cost of the wholesaling operation so that the independent merchant could sell merchandise at a competitive price and still retain a fair gross profit. Today the cost plus operation applies to dry groceries, health and beauty aids, supply items, dairy products and meats. Produce and frozen foods are sold on a regular wholesale basis.

Under the Marketing Service Program established in 1955, and still in effect in 1958, cost is referred to as the manufacturers total invoice billing price delivered to the company warehouse, less all trade and quantity discounts, and less any free deals.[62] The wholesaler's only

[62] Interview with John Godfrey, Milwaukee, January 3, 1958.

adjustment in regard to cost are as follows. (1) Items carrying less than a 2 per cent discount may be adjusted to a 2 per cent basis. (2) All fractions in cost may be adjusted to a full cent. (3) One cent per case may be added to nationally advertised brands to cover warehouse damage. (4) Private label merchandise is increased in price by 5 cents per case to cover damage, labels and procurement costs, this 5 cents is not added if the item is highly competitive. (5) Because sugar and flour are shipped freight free a formula is used to govern the store delivered price. The wholesaler taking the minimum 2 per cent markup required by state law. (6) Certain seasonal merchandise is given a 5 per cent price increase to cover special handling costs. (7) The firm charges for repacking original cases into smaller units.[63]

Drop shipments under the marketing service plan are all billed to the retailer at the wholesaler's cost. In the event of market declines on regular items in stock, the wholesaler immediately reduces price and in case of advances the wholesaler promises to give affiliated retailers an opportunity to purchase merchandise before the cost is increased at the warehouse.

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[63]Godfrey Company, "Marketing Service Program." Unpublished company material distributed to dealers in May of 1955.

In order to operate at the minimum level of expense, the Godfrey Company instituted several cost saving practices in 1955, when the cost plus method of operation was put into effect. These practices require the retailers to mail in two signed checks with each dry grocery order; one is to cover the dry grocery, and drug purchases, the other to pay for the remaining shipments to the retail store. Retailers are also asked to aid the unloading of the wholesaler's truck. Because of the heavy expense connected with returns, all merchandise sent back to the warehouse is required to be in original cartons, and can be returned only with the written authorization of company supervisors. To avoid handling damaged returns, the wholesaler gives a regular allowance of 1/10 of 1 per cent on dry grocery purchases to compensate retailers for the probable loss through unsalable merchandise.

Retailers ordering from the warehouse have the responsibility for mailing the pre-printed order form in sufficient time so that merchandise may be shipped from the warehouse on a specified schedule. All orders received are billed and processed immediately, any additions to an order are held until the next delivery. To minimize telephone expense, no collect calls are accepted by the wholesaler, regular produce and meat order men do not accept dry grocery or frozen food orders.

Merchandising Program

The Godfrey Company offers a merchandising program capable of supplying all retailer needs for the following products: dry groceries, frozen foods, meat, dairy, produce and health and beauty aids. In addition, the firm maintains a fresh bakery which services twenty large volume stores with quality fresh bakery. A competitive bakery line is also made available through an agreement between the wholesaler and a commercial bakery. Through special purchases the wholesaler offers a private label economy pack ice cream and low priced beer. In all, the company feels they are capable of supplying approximately 73 per cent of a retailer's total sales from the warehouse.[64]

Dry Groceries

Dry grocery items, regular store supplies and health and beauty aids are sold through the I.G.A. order form which retailers mail into the firm once or twice a week. This catalogue provides the retailer with the item code number, name of product, size and quantity, suggested retail price and cost F.O.B. the warehouse. Prices in the health and beauty aids section indicate fair trade agreements as well as the price and tax of the items. The catalogue also provides the competitive retail price on two major lines of

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[64] Personal correspondence with John Godfrey, February 14, 1958.

cookies and crackers distributed direct from the suppliers to the retail stores. This wholesaler strongly stresses private label I.G.A. merchandise, enabling affiliated retailers to benefit from the wide acceptance of the label in the wholesaler's marketing area. Although an integral part of the I.G.A. program, private label merchandise is not marketed to the extent it would damage the retailers trade position.

Meat Program

The Godfrey Company has offered a full meat program to affiliated dealers in the past five years. Meat is part of the company's merchandising program because the wholesaler feels a good meat department in the retail store is one of the most important aspects of successful operation. The meat program is offered to affiliated retailers to provide them with the best possible market price available through group purchasing power, while making available specailists to handle merchandising problems in retail departments. At present over 120 retailers subscribe to the I.G.A. Table-Rite meat program. The meat program eliminates all retailer calls by packer representatives by placing the buying function in the hands of the wholesaler. Under the meat program retailers mail in orders to the warehouse at specific times of the week. Each retailer specifies the amount of each commodity desired, the day delivery is needed, and in some instances the specific source of supply. The meat department on the wholesale level then combines the various orders and calls packers in the area to determine the best price on specific commodities. Retailers are urged to allow the meat buyer to select the supplier whenever possible. In most cases, the buyer is free to select the supplier and does so after consideration of total tonnage, price, quality, and service. Branded smoked and prepared meats which are known to have consumer preference are specified as to packer by the retailers, however the wholesaler has the general buying and selection power in regard to fresh meats. All merchandise sold under the meat program is delivered direct by the suppliers, and the wholesaler does no storing or delivery work.

Beside assuming the buying function for the retail stores, the meat program specifies that all stores participating in the operation maintain specific standards of operation and retail only choice Table-Rite beef. Each week the meat managers receive bulletins which report market conditions, specified retail prices, and give information on significant price changes. At present the Godfrey Company requires that all new accounts subscribe and support the Table-Rite meat program.

Produce Program

The produce for all affiliated I.G.A. and Sentry Markets is bought, warehoused, and delivered by the wholesaler. Store orders are secured by telephone. Produce has been a featured department in the merchandising program of the Godfrey Company since company formation. Through years of experience, use of proper facilities, and controlled operation on the wholesale level, affiliated dealers are able to receive from the firm, high quality fresh merchandise. Quality control and standards of operation are given careful supervision in the retail stores by the wholesaler's supervisory personnel.

Produce is not handled on the regular cost plus arrangement by the wholesaler. This merchandise is sold to the retailers on the basis of the wholesaler's purchase price plus regular produce mark-up to cover spoilage and waste. Information and merchandising aids extended by the wholesaler in connection with the produce program include specified price, layout and arrangement suggestions, instructions on handling and trimming, and special display material.

Frozen Food and Dairy

Frozen food and dairy items merchandised by the Godfrey Company are sold to retailers by means of weekly order forms which are mailed to the stores with the general I.G.A. catalogue. All items on the forms are given suggested retail prices by the wholesaler, but such prices are not mandatory.

The frozen food orders of all retailers must be for at least 10 cases of assorted merchandise. Private label merchandise is at a minimum in the frozen food department with only 5 items in over two hundred bearing the I.G.A. label. The policy of the wholesaler in regard to variety is to maintain one complete line of name brand merchandise. This one brand, one price line philosophy, minimizes the amount of display area and storage space necessary on the retail level. By stocking only one brand of any (one) particular item, the wholesaler feels the retailer will benefit more by the volume turnover of the one item than would be the case in instances where two or three lines of the same item are carried in stock.

The dairy department of the wholesaler, stocks a complete line of packaged cheese products, bulk cheese, margarine, miscellaneous dairy items, butter, eggs, lard, herring, and yeast. Items carried in this department relieve the independent retailer from dealing with a large number of wagon jobbers and enable the wholesaler to control the variety of this merchandise in the individual markets. Also, the wholesaler has the opportunity of securing private label butter and a quality egg supply through volumer purchases. All merchandise in the dairy department is sold through the order sheets sent to retailers.

Bakery

In 1955, the Godfrey Company purchased Crestwood Bakeries to service the needs of affiliated retailers with high quality bakery. Today, this bakery supplies twenty-two of the affiliated markets with home baked goods. Fresh bakery departments are limited to a small number of the wholesaler's retail outlets which have a weekly sales volume of $15,000 or more. The wholesaler maintains a high level of quality control over these bakery departments within the retail stores and if the market operator fails to maintain the specified standards, the bakery departments are removed. In 1957, the volume of Crestwood Bakeries was $855,000 in wholesale sales which gave the Godfrey Company a nominal profit. However, the primary objective in the operation of Crestwood Bakeries is not to make a substantial profit, but rather to provide the larger markets with a source of quality bakery, without the instore investment connected with on premise bakeries.

Special Purchases

The competitive half gallon ice cream available to the wholesaler's Sentry Markets is another special product limited to the high volume markets. Ice cream in this category is manufactured in Illinois, and trucked direct to stores having the required volume and the necessary storage facilities. All Godfrey accounts are also able to purchase a price beer through the wholesaler.

The merchandising program made available by the Godfrey Company to affiliated stores is not confined to products handled by the wholesaler. Realizing the time the retailer spends with salesmen must be kept at a minimum, the company has a list of thirty-nine suppliers which are recommended sources of supply for Sentry Markets. Retailers are advised to limit as much as possible outside purchases to the list of recommended suppliers. In this way, uniformity in stock pattern between markets can be maintained as well as allowing the retailer to concentrate on the selling rather than the buying function. The wholesaler is presently working with nylon hosiery, greeting card, houseware, cookie and fresh dairy product suppliers to establish uniform quality and correct pricing on all these items. It is the Godfrey Company's objective to supply both the merchandise and services for every problem that the individual retailer might encounter.[65]

Services Offered by the Firm

The Godfrey Company offers the following services to affiliated dealers: real estate, building contracting service, layout, engineering, remodeling, sales service, accounting and tax service, financing service, competitive price service, quality control, supervision, and advertising.

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[65] Ibid.

Advertising

The Godfrey Company provides an advertising service for both the Sentry Markets and the affiliated I.G.A. markets. Each week newspaper ads are placed in the Milwaukee Journal which reach 90 per cent of the homes in the firm's major trading area, or in the Milwaukee Sentinel, the other major newspaper.

Sentry advertising is usually concentrated in a weekly, one page, four color ad in the Milwaukee Journal. The featured ads are developed by the wholesaler in conjunction with the mat service department of the Journal. Once the ads are run under the Sentry name, the plates are sold to other newspapers throughout the nation, with the Godfrey Company receiving an allowance for the mats which are sold. The Sentry advertising is paid for by the various Sentry Markets. Products featured are not subject to rebate or manufacture allowances of any type and are placed in the advertising solely to draw the greatest possible readership. Sentry advertising is developed by the Godfrey Company advertising committee, which is made up of the advertising manager, the sales manager, the vice-president of merchandising and sales, and a representative of Sentry Markets. This committee meets on Tuesday to plan the ad for the following week. After looking over the previous four weeks advertising, the committee establishes the items to be featured in the advertising. This information in regard to selection of items, is received by the stores on Thursday. Should the price on a particular item, such as meat, not be firm, the wholesaler may wait to send out the advertised price until Monday in which case the retailers know the price by Tuesday the week of the actual sale.

The wholesaler runs a full page black and white ad in the Milwaukee Journal each week for I.G.A. affiliates. These ads are offered free to the retailers and carry a large number of items which have advertising allowances. All advertising allowances in grocery purchases are retained by the wholesaler to help defray the cost of this advertising program.

The two weekly newspaper ads described are of use primarily to the dealers in the Metropolitan Milwaukee area. For dealers outside the area, the wholesaler provides direct mail folders and a mat service. In addition, the advertising department has available window posters, talking signs, and special display materials. The advertising program operated by the wholesaler requires full retailer cooperation in regard to item, price and display. Company officials believe that members support on advertising is more consistent than that of many corporate chains.[66]

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[66] Dudley J. Godfrey, "Chain-Like Retail Control Keep Wholesale Success at Godfrey," Super Market News (February 10, 1957), p. 23.

Supervision

Nine supervisors and four specialists are employed by the wholesaler to work directly with retail stores in the solution of various problems that may arise in store operation. The nine supervisors call on specified retail accounts at least twice a month. These men are employed to assist the retailers in better servicing customers. A group of the supervisors is assigned specially to the Sentry Markets which are wholesaler owned and have the same authority as corporate chain supervisors. The supervisors calling on the independently owned Sentry Markets work more in the capacity of consultants although their ability to enlist retailer cooperation in regard to the pricing, advertising, and level of operation is tending to become more complete.

Should any of the supervisors encounter a problem which requires additional special attention, the four company specialists in meat, produce, frozen foods and dairy are available.

All persons serving in a supervisory capacity devote full time to improving the operations of affiliated markets. None of their time is devoted to selling the retailer merchandise.

Retailers in the Godfrey sponsored group operate for the most part in a highly competitive metropolitan area. The standards of operation of each store must be maintained at high levels in regard to freshness and quality, particularly in the perishable departments. All Sentry Markets, both corporate owned and independently owned, have set standards to follow in regard to quality control which the wholesaler establishes in conjunction with the retailers. Services of the wholesaler in regard to quality control include directions on the buying, preparing, and packaging of perishables as well as specifying required levels necessary before merchandise can bear the Sentry label.

The suggested retail prices included in all merchandise order forms printed by the Godfrey Company, take into consideration the retail prices of leading competitors. Four chains in the Milwaukee area are checked each week to reveal current pricing trends, with special emphasis being placed on the leading competitive firm in the marketing area.

Accounting

The Godfrey Company has a staff of six people who devote full time to retail accounting. At this time, the firm requires that all new affiliated dealers subscribe to the company established accounting service. Today 120 of the 171 accounts have their accounting done by the wholesaler.

The accounting department is equipped to audit retail accounts, prepare balance sheets, prepare profit and loss statements, and perform the general bookkeeping functions by the department. Accounting is used as a tool of the Godfrey Company to assist retailers in correcting operational difficulties.

Store Engineering and Real Estate

Retailers affiliated with this voluntary group have the aid of the wholesaler in store remodeling, layout, equipment purchasing, building contracting, and real estate problems. Company engineers are experienced in modern store layout and are able to give advice to existing operators on remodeling as well as drawing complete plans for new markets. In the development of new markets, the wholesaler is capable of providing complete blueprints and to supervise the actual market construction. Another service provided dealers is the buying of supplies and major fixtures from manufacturers at the discount rate comparable to dealers on their store discounts.

The real estate service of the wholesaler is primarily concerned with securing land and buildings for the establishment of new Sentry Markets. Services in this area deal with analysis of new sites, obtaining parties to construct and lease buildings to retailers and working with accounts in solving general real estate problems.

In addition to having the services which the wholesaler is able to develop as an independent firm, retailers affiliated with the group benefit from the staff functions which the national headquarters of I.G.A. is able to provide. Many of the important aspects of the Godfrey merchandising and service programs have been developed with the assistance of the nation-wide voluntary groups headquarters staff.

Financing and Leasing

Operating as a regional wholesaler in a highly competitive metropolitan area the Godfrey Company plays an important role in financing new and existing operators, as well as leasing fixtures and markets to independent merchants.

Godfrey works with banks and other financial institutions to obtain financial assistance for market operators. The company assists either by informing a bank of a retailer's ability or by endorsing the retailer's note at the bank. This has proved extremely successful in financing fixtures and stock to independents. Throughout the firm's relationship with a leading Milwaukee bank, cooperation to aid independent neighborhood retailers has been highly successful with no losses due to business failure.

In early 1953 the wholesaler realized that continued existence in business as an independent wholesaler required the firm assume an active role in the development of new super market outlets. To this end, Sentry Super Markets were established as a vital part of the wholesaler's program for future growth and expansion. Today the wholesaler services twenty Sentry Markets. Six of them are owned by the wholesaler's subsidiary corporation, Sentry Markets, Inc., and fourteen are owned by independent retailers. In 1957, the five Godfrey owned markets in operation reported sales of $5,850,000. The six unit was opened late in 1957, two more will be opened in 1958.

Beside fostering a number of Sentry Markets as solely owned outlets of the firm, the Godfrey Company has aided the development of the fourteen Sentry Super Markets which are owned by independent merchants. The firm regards the growth of Sentry Markets as prime and anticipates the opening of six more independently owned markets in 1958. Ownership in this case means that all the operators own the business, the stock and fixtures. Three of the group also own their own buildings. The company procedure at present is to select a site, build a building, sell it to an investor, lease it back and sub lease it to a merchant. In the earlier period of Sentry development, the firm did not control the lease on all outlets, and consequently was unable to rigidly control the method of operation on the retail level, and even lost accounts which had been established through the wholesaler's efforts. In the future all leases will be controlled by the wholesaler. The fixtures are handled through a loan from a commercial bank, together with the personal finances of the individual, and when necessary an advance from the wholesaler. Also in some instances, the independent has the opportunity of renting the fixtures under a lease option.

Without actively participating in the acquisition of super market sites and buildings, the growth of the firm would be severly limited, with work in this area the growth of the Sentry group and the continuation of the wholesaler are made more certain. An example of the importance of the development of the Sentry Markets is shown by the $12,445,000 purchases made by thirteen of the larger outlets in 1957. This amount is over 25 per cent of the total sales of the firm and is very significant when evaluated in light of the fact the thirteen markets represent less than 9 per cent of the total customers of the firm in 1957.

Cost of the Godfrey Program

Because the Godfrey Company operates as a cost plus wholesaler, various dues, fees and charges are made by the wholesaler for performing the wholesaling, delivery, and service operations. Items handled by Godfrey under the cost plus arrangement are the complete dry grocery line, health and beauty aids, supply items, dairy items, and meat.

Under the marketing service or cost plus type of operation adopted in May of 1955, all merchandice of the Godfrey Company is sold F.O.B. the warehouse. The F.O.B. plan sets up zone rates for the delivery of merchandise with the cost of transportation being increased as the straight line distance between wholesaler and retailer increases. Larger orders under the F.O.B. system present certain economies in selection and delivery which are passed on to the dealers with the larger volume purchases. Sugar, flour and potatoes are shipped free of charge. Certain minimum charges are specified in the calculation of delivery rates, these apply to mixed loads of dry groceries and perishables, not to straight produce deliveries in the country area outside metropolitan Milwaukee. The delivery fee schedule is shown in Table XV. The firm's marketing area is shown in Table XVI.

Basing the firm's merchandising program on the premise that in any business transaction both parties must make a profit, the fee schedule established by the Godfrey Company is directed toward showing a satisfactory profit for the wholesaler, plus bringing the retailers merchandise at prices as low or lower than those which can be achieved from other sources of supply. The total weekly fees are shown in Table XVII.

In addition to the freight charges and weekly fees, the wholesaler has a merchandise handling charge which is shown in Table XVIII. This covers merchandise handling, office processing, warehouse assembly, and costs of other operating functions. Charges in this area are based on the average purchase of a retailer per week over each four week period. For example, if a retailer purchased $6,000 worth of merchandise from the wholesaler in a four week period, the charge per week during the next four week period would be based on weekly purchases of $1,500.00.

TABLE XV

Delivery Fee Schedule

Zone 1 --- 0 to 13 Miles

Rate -- Minimum Fee $3.75

00 - 4,999	pounds	16¢ cwt.	Maximum charge $ 7.50
5,000 - 9,999	pounds	14¢ cwt.	Maximum charge $13.00
10,000 - 14,999	pounds	12¢ cwt.	Maximum charge $16.50
15,000 - and Over		10¢ cwt.	

Zone 2 --- 13 to 25 Miles

Rate -- Minimum Fee $5.50

00 - 4,999	pounds	23¢ cwt.	Maximum charge $11.00
5,000 - 9,999	pounds	21¢ cwt.	Maximum charge $20.00
10,000 - 14,999	pounds	19¢ cwt.	Maximum charge $27.00
15,000 - and Over		17¢ cwt.	

Zone 3 --- 25 to 50 Miles

Rate -- Minimum Fee $6.75

00 - 4,999	pounds	28¢ cwt.	Maximum charge $13.50
5,000 - 9,999	pounds	26¢ cwt.	Maximum charge $25.00
10,000 - 14,999	pounds	24¢ cwt.	Maximum charge $34.50
15,000 - and Over		22¢ cwt.	

Zone 4 --- 50 to 75 Miles

Rate -- Minimum Fee $8.00

00 - 4,999	pounds	33¢ cwt.	Maximum charge $15.50
5,000 - 9,999	pounds	31¢ cwt.	Maximum charge $30.00
10,000 - 14,999	pounds	29¢ cwt.	Maximum charge $42.00
15,000 - and Over		27¢ cwt.	

Zone 5 --- 75 to 100 Miles

Rate -- Minimum Fee $9.25

00 - 4,999	pounds	38¢ cwt.	Maximum charge $18.50
5,000 - 9,999	pounds	36¢ cwt.	Maximum charge $35.00
10,000 - 14,999	pounds	34¢ cwt.	Maximum charge $49.50
15,000 - and Over		32¢ cwt.	

TABLE XV (Continued)

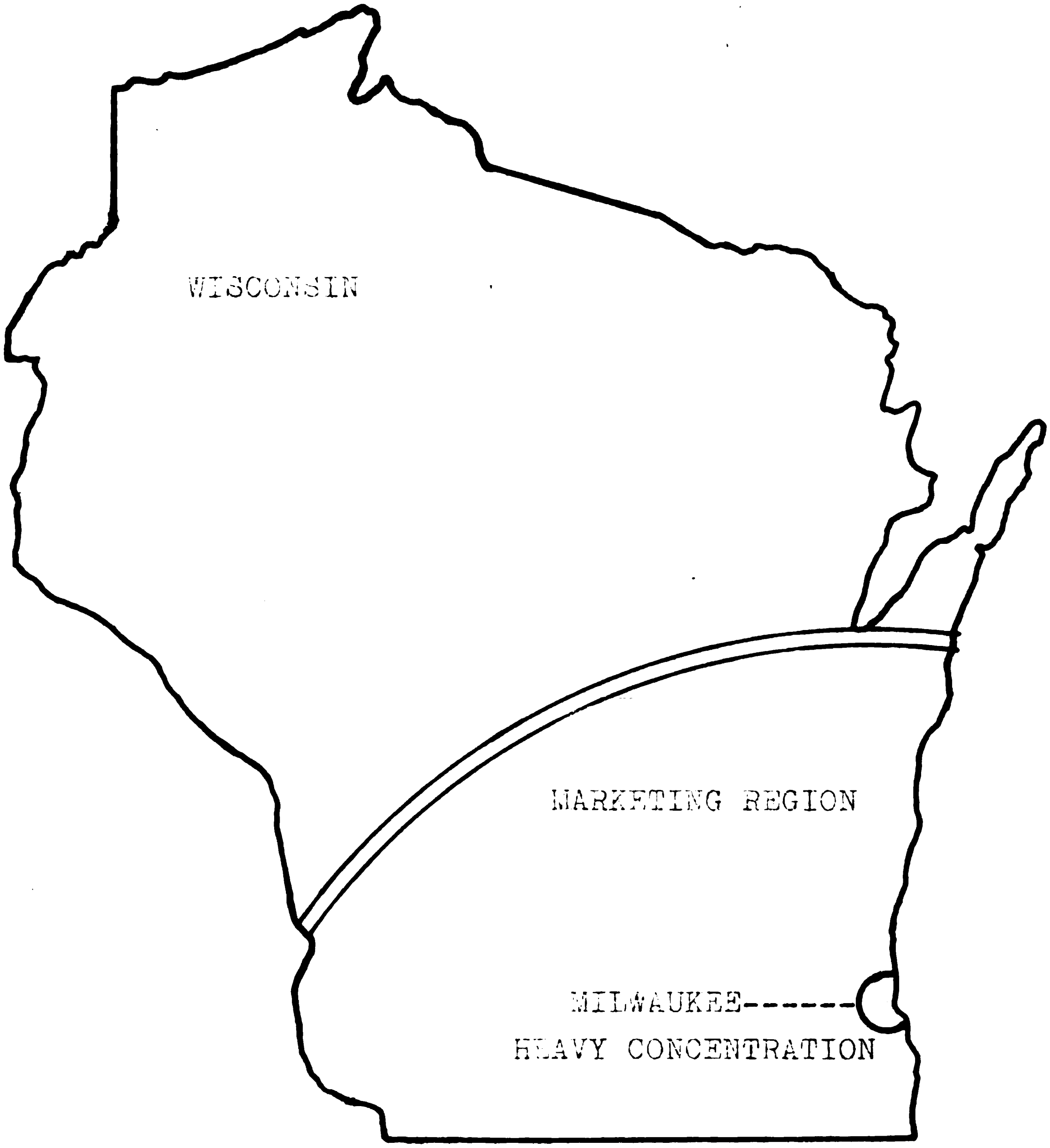
Zone 6 --- 100 Miles and Over

Rate -- Minimum Fee $10.50

00 - 4,999 pounds	43¢ cwt.	Maximum charge $21.00
5,000 - 9,999 pounds	41¢ cwt.	Maximum charge $40.00
10,000 - 14,999 pounds	39¢ cwt.	Maximum charge $57.00
15,000 - and Over	37¢ cwt.	

TABLE XVI

MARKETING AREA OF THE GODFREY COMPANY AT THE PRESENT TIME



Within the 100 mile zone surrounding the company warehouse in Milwaukee, there exists 71 per cent of all Wisconsin's business and 96 per cent of the state's growth.

TABLE XVII

WEEKLY FEE CHARGES TO GODFREY ACCOUNTS

I.G.A. Dues - $6.00 per week.

This covers the I.G.A. Membership Fees, supervisory service, counsel, and weekly bulletin service.

Marketing Service Fee - $11.50 per week.

This covers general administration, buying expense, order forms, and other printing expenses, competitive pricing advice, and quality control.

TABLE XVIII

SERVICE FEE CHARGES

62.5¢ Per Week for Each $100.00 Bracket of Purchases of Dry Groceries, Cheese Items, Drugs, and Supplies.

Purchases From	(4 Week Period) To	Weekly Fee
$ 000.00	$ 999.99	$ 6.25
$ 2,500.00	$ 2,599.99	$ 16.25
$ 5,000.00	$ 5,099.99	$ 31.88
$ 7,500.00	$ 7,599.99	$ 47.50
$10,000.00	$10,099.99	$ 63.13
$12,500.00	$12,599.99	$ 75.63
$15,000.00	$15,099.99	$ 94.38
$17,500.00	$17,599.99	$110.00
$20,000.00	$20,099.00	$125.63

This charge is made to cover merchandise handling charge, office processing, warehouse assembly, and other operational functions.

The costs detailed to this point do not include the service fees for the Table-Rite Meat program, these are shown in Table XIX.

TABLE XIX

GODFREY MEAT FEE SCHEDULE

Pounds Purchased	Charges Per Pound
5,000 and under	1¢
5,000 to 7,500	7/8¢
Over 7,500	3/4¢

Frozen foods and produce are sold under a regular wholesaler delivery price by the Godfrey Company. Because of this delivered price arrangement, these items are not included in the fee schedules.

Requirements for Retailer Affiliation

Retailer affiliation with the Godfrey voluntary group is centered about retailer concentrating all possible purchases through the supply depot. The whole merchandising program is aimed at freeing the retailer from the buying function and allowing retailers to spend their time on the selling of merchandise. In order to participate in the Godfrey program, retailers are required to concentrate purchases with the wholesaler on regular items handled by the warehouse and to buy only from company approved suppliers.

The independent retail markets, particularly the Sentry Markets, are under tight supervision by the wholesaler. The requirements for retail affiliation are outlined in the following nine points:

(1) All markets must be operated in such a manner as to meet the rigid requirements of the wholesaler in regard to quality and freshness of merchandise.

(2) Specific requirements in regard to building and parking are needed to qualify for Sentry or Foodliner affiliation. Less rigid standards are specified for I.G.A. markets.

(3) Full cooperation of the retailers is expected with regard to the purchasing, advertising and pricing of merchandise.

(4) Retailers must agree to the planned distribution policy of the wholesaler in regard to items necessary for advertising or promotion.

(5) Order forms must be sent in on specified times by the retailers and retail level assistance must be available to help unload the wholesaler's trucks.

(6) Two weekly checks must be made payable to the wholesaler, one to cover dry grocery and health and beauty aid purchases, the other to cover remaining retailer acquisitions.

(7) Independent markets must display the group I.G.A. ensignia prominently and all Sentry Markets are to be known by that name only. All other identification is banned from the market proper or the group's advertising.

(8) Only one grade of meat can be merchandised under the meat program. Retailers are not allowed to stock meat other than the approved quality.

(9) Supervisors are to be given full retail level cooperation. The retailer is to follow their directions in regard to all merchandising policies and practices.[57]

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[57] "I.G.A. Franchise Agreement," The Godfrey Company, unpublished, 1957.

Results of A Sentry Market's Operation

An official of the Godfrey Company recently stated that the financial statements of member retailers, not the financial statement of the wholesaler, is the proper measure of the wholesaler's success.[68] Table XX shows the operating statement of a Sentry Market which is independently owned and operated. This market is one of the newest units in the group and is situated in a Milwaukee suburb competing with leading chain markets. Total costs of the entire Godfrey merchandising and accounting program, for this market, in the period under consideration amounted to 1.59 per cent of sales or $12,853. This includes the freight charges on all merchandise, I.G.A. dues, marketing service fees, accounting charges and meat service costs. With the wholesaler expecting an approximate concentration of purchases of 73 per cent of total sales, the $12,853.21 is approximately 2.7 per cent of assumed wholesaler purchases of $477,795.00 from the wholesaler.

[68] Dudley J. Godfrey, Op. Cit., p. 23.

TABLE XX

GODFREY COMPANY RETAIL ACCOUNTING SERVICE
STATEMENT OF OPERATIONS
FROM 1/1/57 TO 9/22/57

Department	Sales	Per Cent of Total
Grocery	$430,378.79	53.58%
Meat	173,826.30	21.64%
Produce	79,877.89	9.94%
Dairy	65,880.94	8.20%
Bkt and Del.	53,328.15	6.[illegible]%
Total	$803,292.07	100%
	Gross Profit	
Grocery	$ 77,541.80	17.99%
Meat	33,352.99	19.47%
Produce	18,509.92	23.17%
Dairy	8,140.80	12.36%
Bkt and Del.	10,730.73	20.12%
Total	$148,776.54	18.52 avg.
	Controllable Expense	**Per Cent of Sales**
Salaries	$ 44,868.43	5.59%
Taxes - Payroll	1,799.98	.22%
Store Supplies	7,641.37	.95%
Advertising	5,602.54	.70%
Total	$ 59,912.32	7.46%
Administrative Expense		
Rent	$ 11,317.39	1.41%
Service Fee Meat	2,440.92*	.30%
Marketing Service	7,735.47*	.96%
Utilities	6,383.19	.80%
Insurance	1,055.61	.13%
Taxes-Personal Prop.	1,080.00	.13%
Dues	244.00*	.03%
Freight	1,790.19*	.22%
Leasehold Improvements	360.90	.04%
Depreciation-Fixtures Rent	14,223.40	1.77%
Accounting	642.63*[1]	.08%
Miscellaneous	1,326.55	.18%
Repairs & Maintenance	723.29	.09%
Total	$49,648.12	6.18%

TABLE XX (Continued)

Net Profit	$39,215.80	4.88%
Personal Draw	$ 7,291.35	.90%
Earnings Retained	$31,924.45	3.98%

*Godfrey Company Merchandising Program Costs

*[1]Accounting Required as part of the Program

TABLE XXI

COST OF THE GODFREY MARKETING PROGRAM

The following examples show the cost to the Retailer of having the Godfrey Company supply dry groceries, drugs, supplies, and dairy items to the stores. Also included in the costs are the I.G.A. dues and the marketing service fee. The tables have been worked out assuming all pieces of merchandise weight 30 lbs. each and are valued at $5.00.

STORE A

Period Purchases $5,000.00: Weekly $1,250.00
Weekly Order 250 pieces - 7,500 pounds

Costs Zone 1

Merchandise Handling Fee	$ 31.88
Freight Cost 14¢ cwt.	10.50
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$ 59.88

4.8% of purchases

Costs Zone 6

Merchandise Handling Fee	$ 31.88
Freight Cost 41¢ cwt.	30.75
Marketing Service Fee	11.50
I.G.A. Dues	6.50
Total	$ 80.63

6.4% of purchases

TABLE XXI (Continued)

STORE B

Period Purchases $10,000.00: Weekly $2,500.00
Weekly Order 500 pieces - 15,000 pounds

Costs Zone 1

Merchandise Handling Fee	$ 63.13
Freight Cost 10c cwt.	15.00
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$ 95.63

3.8% of purchases

Costs Zone 6

Merchandise Handling Fee	$ 63.13
Freight Cost 37¢ cwt.	55.50
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$136.13

5.4% of purchases

STORE C

Period Purchases $20,000: Weekly $5,000.00
Weekly Order 1,000 pieces - 30,000 pounds

Costs Zone 1

Merchandise Handling Fee	$125.63
Freight Cost 10¢ cwt.	30.00
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$173.13

3.5% of purchases

TABLE XXI (Continued)

Costs Zone 6

Merchandise Handling Fee	$125.63
Freight Cost 37¢ cwt.	111.00
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$254.13

5.1% of purchases

STORE D

Period Purchases $40,000: Weekly $10,000.00
Weekly Order 2,000 pieces - 60,000 pounds

Costs Zone 1

Merchandise Handling Fee	$250.63
Freight Cost 10¢ cwt.	60.00
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$328.13

3.3% of purchases

Costs Zone 6

Merchandise Handling Fee	$250.63
Freight Cost 37¢ cwt.	222.00
Marketing Service Fee	11.50
I.G.A. Dues	6.00
Total	$490.13

4.9% of purchases

TABLE XVII

1957 RETAIL STORE OPERATION

(Individually Owned)

	SALES IN EXCESS OF: $500,000 (12 Stores)	%	SALES IN EXCESS OF: $1,000,000 (13 Sentry Stores)	%
Sales	$8,417,158.00		$15,796,692.52	
Cost of Sales	7,054,137.70		13,122,493.96	
Gross Profit	$1,363,020.30	16.20	$ 2,674,198.56	16.93
Controllable Expenses:				
Salaries	$ 508,564.41	6.04	$ 962,367.50	6.10
Taxes-Payroll	16,773.34	.20	38,314.78	.24
Store Supplies	72,032.05	.86	156,098.34	.99
Advertising	58,154.05	.69	129,825.07	.82
Total Controllable Expenses	$ 655,523.85	7.79	$ 1,286,605.59	8.15
Contribution to Overhead	$ 707,496.45	8.41	$ 1,387,592.97	8.78
Administrative Expenses:				
Rent	$ 78,379.97	.93	$ 170,556.27	1.08
Service Fees-Meat	29,480.40	.35	54,946.32	.35
Marketing Service	78,634.16	.94	143,070.56	.90
Utilities	54,300.80	.65	92,654.22	.59
Interest	19,240.00	.23	18,721.82	.12
Insurance	13,539.68	.16	27,351.79	.17
Taxes-Personal Property	13,540.55	.16	21,641.02	.14
Dues	3,827.50	.05	4,271.23	.03
Freight	35,786.82	.42	62,575.05	.40
Leasehold Improvements	9,391.83	.11	21,878.59	.14
Depreciation-Fixtures	69,255.32	.82	102,833.88	.65
Fixture Rental			49,149.55	.30
Accounting & Misc.	32,592.98	.39	48,127.80	.30
Repairs & Maintenance	17,065.92	.20	21,647.96	.14
Total Administrative Expense	$ 455,036.92	5.41	$ 839,426.06	5.31

TABLE XXII (Continued)

	SALES IN EXCESS OF: $500,000 (12 Stores)	%	SALES IN EXCESS OF: $1,000,000 (13 Sentry Stores)	%
Operating Profit	$ 252,459.53	3.00	$ 548,166.91	3.47
Other Income		.	6,255.85	.04
Net Profit	$ 252,459.53	3.00	$ 544,422.76	3.51
Average Sales Per Unit	$ 701,429.83		$ 1,215,130.15	
Average Net Profit Per Store	$ 21,038.29		$ 42,647.90	

CHAPTER V

SUMMARY AND CONCLUSION

Summary

Although both firms described in this work are referred to categorically as voluntary group wholesalers, analysis of their operations reveal significant variations from the theory behind the development of the original voluntary groups thirty years ago.

The Godfrey Company marketing primarily in a metropolitan area has had to assume a great deal of control over the activities of affiliated dealers, particularly the Sentry Markets. Examples of this are found in the wholesaler limiting retailers to choice beef, maintaining strict standards of control in regard to the fresh bakery departments, utilizing the planned distribution of advertised items, requiring full retailer cooperation in regard to suggested retail prices, and asking retailer participation in the groups accounting program. All this activity under the direction of the wholesaler is aimed at presenting the consumers with the same high level of merchandise, service, and shopping facilities in all stores operating under Sentry identification. Less rigid requirements, particularly in regard to physical facilities, are specified for the I.G.A. Foodliner and regular I.G.A. affiliates. The particularly high standards insisted upon for the Sentry Markets are part of the distinctive identification developed by the wholesaler to create a definite image in the consumer public of the Sentry outlets. This is done because the development of Sentry Markets, both wholesaler and independently operated, is the primary means of assuring the wholesaler of a place in the market.

The Super Valu group extending over nine states, operates primarily in areas of limited population. Company policy is to control franchised outlets to one in each marketing area. In the instances where the opportunity exists for an additional market, the present franchised dealer is given every opportunity to own and operate the new outlet. Retailers buying from Super Valu have complete freedom in regard to selecting the grade of meat handled, the wholesaler has no planned distribution of advertised items and substantial latitude is given independent merchants in regard to following suggested retail prices. In utilizing two types of franchised outlets, the wholesaler is able to achieve maximum distribution, while preserving the Super Valu name for the better equipped markets.

With the majority of Super Valu retailers being separated from each other and from the company distribution centers by substantial distances, the policy of the group is to allow each retailer complete freedom in advertising. The wholesaler has an advertising program available but retailers have no obligation to subscribe. Retailers can either have their accounting done by the wholesaler or by an outside firm, however Super Valu specifies a complete record must be maintained. In recent years the requirements for Super Valu affiliation have been raised substantially, with the consequent result that markets bearing the group's identification are among the finest in their respective trading regions. Strong emphasis on the upgrading of the perishable departments in affiliated markets has been of particular importance in the past few years. Although the Super Valu plan allows the affiliated retailers substantial freedom of operation, the success of the group in recent years seems to indicate the validity of such an operation.

Realizing that the lack of existing retailer owned super market outlets would limit the growth of the wholesaler, the Godfrey Company embarked in 1952 upon an extensive program of super market development. This plan, entailing the creation of independently owned and wholesaler owned markets, is aimed at providing the wholesaler with a number of large volume outlets. Primarily the firm's distribution plan is based upon the development of retail facilities for which it is the motivating force. These markets are then leased to qualified retailers under closely controlled franchise agreement or operated as corporate stores of the wholesaler's subsidiary corporation. By controlling the leases of all Sentry outlets, the wholesaler is assured of a market for approximately $1,000,000 worth of merchandise annually per store. Such lease agreements also enable the Godfrey Company to exercise substantial control over the retail outlets. Today the wholesaler much prefers to lease developed sites to qualified individuals rather than operate them as corporate owned stores. However, once the wholesaler assumes active operation of a market, the operation is not sold to an independent merchant. Thus, the Godfrey Company is no longer a pure voluntary group wholesaler, because the limited number of individuals capable of establishing super market outlets makes it imperative that the firm develop a number of corporate markets. The importance of the Sentry developments are shown by the fact that the twenty markets in this group purchased 38 per cent of all the merchandise sold by the Godfrey Company in 1957.

Although the majority of Super Valu outlets are located in non-metropolitan areas the problems faced by the wholesaler in the establishment of larger retail facilities have been substantial. The ideal Super Valu voluntary group retailer is an individual doing business in a modern market, located in a town where the operator has had substantial business experience and is a recognized member of the community. Under such an arrangement, the source of supply, Super Valu, and the retailer make the best possible voluntary group team. However, when the wholesaler wishes to expand into a new area, the number of individuals capable of financing the development of new markets is limited. As a result, the subsidiary real estate corporation of Super Valu is active in developing new markets when capable independents are found who can operate them.

The vast majority of new company outlets are being developed with the ownership of the retail markets being in the hands of investors, with Super Valu, Inc. leasing them, and then subleasing them to qualified merchants.

Although at this time Super Valu operates a number of corporate owned markets, the policy of the wholesaler is not to enter the corporate field on a permanent basis. The firm stipulates corporate owned markets play a part in the overall marketing plan of the wholesaler only when strategic locations are available and when independent operators cannot be immediately interested in their development. This company policy is further explained in Appendix F.

The possibility of either wholesaler forming a completely integrated chain type of operation is not imminent at the present time for two reasons. First, the wholesalers have no desire to completely change their operations into that of corporate chains because of the personnel and operating problems which confront corporate type organizations. Second, the wholesalers presently have a large amount of control over the retail outlets, enjoying substantial sales through them, while not becoming involved in the actual ownership and management problems on the retail level.

Since the inception of the voluntary group movement, wholesalers have had two major difficulties: (1) the lack of retailer willingness to concentrate purchases one hundred per cent with the sponsoring wholesalers, (2) and the reluctance of independent retailers to follow the direction and guidance of wholesaler employed supervisors. Under the Godfrey Sentry program, wholesaler leases are subject to complete retailer participation under the terms of the franchise agreement which stipulates one hundred per cent cooperation with the supervision and merchandising programs of the wholesaler. In the Super Valu organization, the markets subleased by the wholesaler are operated by independent retailers under much the same terms as in the Godfrey organization. However, with the largest amount of Super Valu business being done with markets which are not subleased, the wholesaler relies substantially upon the value of the franchise to the dealer in promoting one hundred per cent participation with the program. Certainly the role of both wholesalers in market development not only creates markets for merchandise, but also enables the wholesaler to encourage greater retailer participation in the program offered them.

Conclusion

The voluntary group wholesalers described in this paper are outstanding examples of the success possible through voluntary cooperation between mutually dependent business firms. Both Super Valu and Godfrey Company have changed significantly from their typical wholesale operations of thirty years ago. Carrying over the mechanical functions of old line wholesalers, the firms now concentrate on development and operations at the retail level. Both provide retailers with a host of services fully comparable to those provided by chain organizations to various retail outlets.

Certainly the supply function, the sole purpose of the old line wholesaler is an important part of the programs offered by these two voluntary group sponsors. However, today the service aspect of the operation is becoming of increasing value. The growing investment requirements on the retail level have also made the financial and real estate work done by these two firms of prime importance.

The voluntary plan of distribution has its definite disadvantages in the reluctance of many retail members to improve existing markets and to develop new outlets. Incentives for such groups must of course come from the wholesalers who are generally expected to assume a fatherly attitude toward sponsored dealers. Full cooperation in such groups is becoming of increasing importance, not only to enable the wholesaler to achieve economies in purchasing, but also to support the extensive service functions available to the group.

The present growing competition in the food industry between super market outlets would seem to indicate that voluntary groups receiving less than one hundred per cent cooperation from all retail members operate at a serious disadvantage, which substantially weaken the marketing strength of the group. In the future, an increasing degree of wholesaler control will likely be necessary, particularly with the groups operating in densely populated areas. From the wholesaler's viewpoint, the extension of near chain-like control over retail outlets is likely to become an absolute necessity if the firms on this level are to continue to expand the lines of merchandise, the number of services, and the amount of market development work done on the supplier level.

The ideal in voluntary group activities, would be to have a number of large volume, well managed markets participating fully with the sponsoring wholesaler's program. Each of the stores would be able to enjoy the inherent advantages of having the owner participating actively in the management of the business. Under such an operation, the costs of supervision would be minimized and the group could devote all efforts to selling merchandise to the actual consumers.

The basic principle of the voluntary movement - that of voluntary cooperation between independent, yet dependent business firms - has played a substantial role in enabling both independent wholesalers and retailers to remain significant factors in the food distribution field. The continued existance and future growth of this form of marketing organization will be dependent largely on the ability of sponsoring wholesalers to offer affiliated dealers a profitable program. Only then can the wholesalers receive the one hundred per cent retailer cooperation which is the backbone of the voluntary movement.

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[illegible] from T. G. Harrison, Jr., Chairman of [illegible] Stores, Inc., [illegible].

[illegible] Vice-President [illegible].

APPENDICES

APPENDIX A

OPTION TO LEASE

For and in consideration of the sum of One Dollar ($1.00) in hand paid and other valuable considerations, receipt whereof is hereby acknowledged, I, ____________________, Owner, hereby grant unto Super Valu Realty, Inc., of Hopkins, Minnesota, its successors and assigns, hereinafter called Lessee, an option for _______ days from the date hereof to lease the following described premises:

____

Located in the City of __________, County of __________, and State of __________, upon the following terms and conditions:

1. The undersigned Owner agrees to execute a lease to Lessee, its successors or assigns.

2. The initial term of said lease is to be ____ years beginning __________ with options to renew the said lease for __________ additional periods of __ years each, each upon six (6) months written notice.

3. The monthly rental for the initial and renewal terms is to be __________________________________

4. Purpose of occupancy is for use as a retail food market, or any other legal purpose.

5. Prior to the commencement date of the lease the Owner at his expense shall perform the following construction, improvements, repairs or alterations.

6. During the initial term of the lease and all renewal periods Owner shall repair the exterior and interior structural portions of the building including walls, floors, front, ceiling, roof, concealed plumbing and wiring, heating plant and equipment.

7. Lessee shall perform all redecorating, repairs and maintenance to the interior non-structural portion of the building including floor, drains, toilets, sinks, light fixtures, bulbs and tubes.

8. Owner is to carry all fire and extended coverage insurance on the building and pay all real estate taxes and special assessments.

APPENDIX A (Continued)

9. Lessee shall have the right to sublet the premises. In the event it does sublet, Lessee shall remain liable for payment of the rent and all other conditions of the lease.

Lessee shall signify its intention to exercise this option within the time specified and failure to give such notice within the time specified shall terminate this option and all rights thereunder.

____
Owner

IN THE PRESENCE OF:

____

____

Signed at ____________________ this ____ day of _________ 19___

APPENDIX B

SUBLEASE

THIS SUBLEASE, made _____________, 19___, by and between Super Valu Realty, Inc., a Minnesota corporation, with its principal office and place of business in Hopkins, Minnesota, Hennepin County, (hereinafter called the "Sublessor"), and_______________________(hereinafter called "Tenant").

WITNESSETH:

WHEREAS, the Sublessor is the lessee of certain premises situation in the _______of_________County of_______ State of___________, more specifically described as follows:

under the terms of a certain lease dated______________, under which lease________________is the lessor, (hereinafter refered to as the "Prime Lease"), a copy of said Prime Lease being attached hereto and made a part hereof, and,

WHEREAS, the Sublessor is desirous of subleasing the above described premises to the Tenant, and the Tenant is desirous of subleasing said premises from the sublessor,

NOW THEREFORE, the parties hereto agree as follows:

1. The Sublessor in consideration of rents to be paid and the covenants to be performed by the Tenant is hereinafter set forth, hereby demises and sublease to Tenant and Tenant hereby hires and takes from Sublessor solely and only for the purpose of operating a retail super market for the sale of such articles of merchandise as are customarily sold in super markets, the premises above described for a term of ____years less one day, (hereinafter called the "initial term") commencing on the day the Prime Lease commences as provided therein.

2. Tenant is hereby granted the following renewal (s) of this Sublease:_______________________________________

Each such renewal period shall commence upon the date each comparable renewal period provided in the Prime Lease begins. Tenant shall exercise its option (s) to renew this sublease by so notifying Sublessor in writing at least _____ in advance of the commencement date of the comparable renewal period of the Prime Lease. Each renewal period of this sub-

APPENDIX B (Continued)

lease shall be subject to all of the terms contained herein for the original term of this sublease except as herein otherwise may be provided.

3. In consideration of aforesaid subleasing, the Tenant covenants and agrees to pay each calendar week to the Sublessor minimum rent for the leased premises as follows: ______________________________

As additional rent Tenant covenants and agrees to pay to Sublessor: ______________________________

As used herein, the term "gross sales" shall mean the aggregate sale price of all merchandise sold in, upon or from the demised premises by any or all departments thereof, less credits and returns, and not including any amounts that may be added to or included in the sales price or paid or collected by the Tenant for or on account of any tax or taxes now or hereafter imposed upon in respect of the purchase or sale of said merchandise or the receipts therefrom (commonly called "Sales Tax"). The term "gross sales" shall not include sales in quantity or bulk to any retail food merchants. Said rent for each calendar week shall be paid weekly to the Sublessor at the office of Super Valu Realty, Inc., at Hopkins, Minnesota.

4. Tenant, during the initial and any renewal term of this sublease, shall subscribe to the Super Valu Stores, Inc. Retail Accounting Service. Tenant agrees to comply with such accounting methods, systems, and procedures as may be established from time to time by said Retail Accounting Service.

5. The Sublessor shall not be in any sense a partner of the Tenant in the conduct of Tenant's business, and the relationship between the parties hereto shall be strictly and solely that of landlord and tenant.

6. Except as may be herein otherwise specifically provided, the Tenant shall have all the rights and privileges and assumes and agrees to keep and perform all of the obligations and conditions and covenants of the lessee under the Prime Lease including the payment of taxes and insurance and the performance of repairs and maintenance if so required in the Prime Lease. It is agreed and understood between the parties hereto that Tenant obtains and is granted no more rights and privileges hereunder than Sublessor has as lessee under said Prime Lease.

EXHIBIT B (Continued)

7. The Tenant agrees that it will take good care of the leased premises, and will commit no waste, and will not do, suffer or permit to be done any injury to the same; that it will keep said premises in the same good order, condition and state of repair required of Sublessor as lessee under the Prime Lease; that it will permit the Sublessor to enter on to said premises at any and all reasonable times during business hours in order to inspect the same or to show the same to prospective purchasers or tenants or for any other proper purpose; that it will not suffer or permit any additions to or alterations of said premises without the prior written consent of the Sublessor; that it will not do, suffer or permit to be done any act or thing contrary to the covenants and agreements made by the lessee in the Prime Lease.

8. The Tenant further covenants and agrees that it will peacefully and quietly vacate and surrender the leased premises to the Sublessor at the expiration of the initial or any renewal term, or at any earlier termination as may be provided elsewhere herein, and that the Sublessor shall not in any way or to any extent be liable for any loss or damage to the Tenant or to any property of the Tenant in or upon the leased premises. It is further agreed and understood that the Sublessor will not be liable for any damages or any loss of profits due to the interruption of Tenant's business resulting from, but not limited to, fire or other casualty or unavoidable accident, strikes, lockout.

9. Tenant agrees to indemnify and hold harmless Sublessor from all liability and damages that might occur on the leased premises as a result of Tenant's use or occupancy of demised premises, including the cost of defending any legal proceedings instituted against the Sublessor.

10. It is further understood and agreed by and between the parties hereto that Tenant's violation of or failure to perform any covenant, agreement or provision contained herein or in the Prime Lease to be kept, performed or observed by it or any violation or failure by Tenant to perform or fulfill any other covenant, obligation, or agreement between Sublessor and Tenant or Tenant and Super Valu Stores, Inc., arising otherwise than under this sublease, shall authorize the Sublessor to consider or declare this sublease forfeited without demand, and it may re-enter and take possession of the premises without any previous notice of intention to re-enter, and it may bring an action for unpaid rents and damages suffered by it arising out of or connected with any breach or violation by the Tenant of any covenant, agreement or provision on its part to be performed, and the Tenant

agrees to pay a reasonable attorney fee in any action to recover rents or damages due under the terms hereof.

If, after the exercise of due diligence, the Sublessor shall be unable to obtain a rent for the leased premises as large as that provided for under this sublease, for the remainder of the term hereof, then the Tenant agrees to pay the Sublessor in advance on the first day of each month for the remainder of the term hereof the difference between the average monthly rental paid, during the term in which Tenant's breach occurred, for all months prior to said breach, and the rent per month which the Sublessor shall be able to obtain from said premises.

Any remedies in this sublease shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in Sublessor's favor existing a law or in equity.

11. The Tenant agrees to enter into and comply with the provisions of, and at all times to conduct its business under a "Super Valu" franchise, sometimes also known as "Super Valu Retailer's Agreement," from Super Valu Stores, Inc. It is understood and agreed by and between the parties hereto that, in the event of a cancellation by the Tenant herein of the Super Valu franchise for any reason whatsoever, the Sublessor may, at its option, terminate this sublease upon written notice to the Tenant.

Sublessor agrees not to terminate this sublease solely and only because of a termination by Super Valu Stores, Inc. of the Super Valu franchise unless Tenant has received at least thirty (30) days notice in writing from Super Valu Stores, Inc. that said franchise will be cancelled unless Tenant meets the conditions or rectifies and corrects such conditions or rectify and correct such reasons within the time specified in such notice to the satisfaction of Super Valu Stores, Inc. It is agreed by the parties hereto that if Super Valu Stores, Inc. cancels said franchise, as hereinabove provided, the Sublessor may at its option, at any time after said termination of franchise, terminate this sublease upon written notice to the Tenant.

If Sublessor terminates this sublease solely and only because of a termination of the Super Valu Stores, Inc. of the Super Valu franchise, Tenant shall have no further liability or obligation under the terms of this sublease from and after the date of termination of this sublease, providing nevertheless, that Tenant shall remain liable for any obligations, breaches or defaults of Tenant arising prior to the date of termination of this sublease.

If Sublessor terminates this sublease solely and only because of a termination of the Super Valu franchise as hereinabove provided, Tenant may, by serving written notice on Sublessor within five (5) days following such termination of this sublease require Sublessor to purchase the personal property described under the terms hereinafter provided in Section (a) and (b). Provided, however, that if the Tenant is bankrupt or insolvent at any time, or if Tenant or Tenant's property comes into the hands of any assignee or anyone acting under the orders of any court at anytime, Sublessor shall not be required to purchase said personal property as hereinabove provided.

(a) All furniture, trade fixtures, tools and equipment at market value.

(b) All merchandise and supplies at Tenant's delivered invoice cost or replacement cost, whichever is lower at the time of closing.

"Market value," as used herein shall mean the price at which Super Valu Stores, Inc. can, at the time of closing as hereinafter provided, purchase and install in the aforedescribed premises, used furniture, fixtures, tools and equipment similar in type, quality and condition to the personal property described in section (a) above.

This agreement shall be limited to the aforesaid personal property being located in and upon the aforedescribed premises at the time of termination of the sublease.

Sublessor shall determine the closing date and shall give Tenant written notice of said closing date at least fourteen (14) days prior thereto, provided however, that said closing date shall not take place more than thirty (30) days after the termination of said sublease.

On the day of closing an inventory of the personal property agreed to be sold herein shall be taken by representatives of both parties.

All insurance premiums and personal property taxes for the year in which said sale is closed shall be paid by Tenant.

APPENDIX B (Continued)

Tenant and Sublessor agree to comply with applicable "Bulk Sales Laws."

At the time of closing Tenant shall deliver to Sublessor all Bills of Sale and any other documents necessary to convey good title and interest in said personal property. At the time of said delivery Sublessor shall pay to Tenant, the amount due hereunder. Tenant shall warrant that he is the lawful owner of all the personal property described above and that he has good right to sell the same as aforesaid and that the same are free from all encumbrances. If there shall be any delay by Tenant in delivering any of said personal property or Bills of Sale or other documents Sublessor may terminate Sublessor's obligation to purchase said personal property with no further liability or obligation to Sublessor.

12. It is further agreed and understood by and between the parties hereto that existence of this sublease is dependent and conditioned upon the existence of the Prime Lease, including any renewal thereof, and in the event of the cancellation or termination of said Prime Lease, this sublease automatically shall be terminated. Provided however, Sublessor agrees not to amend, alter or modify, any of the provisions of said Prime Lease without Tenant's consent.

13. The Tenant further covenants and agrees that it will not sell, assign or pledge this sublease or underlet the said premises or any part thereof without the prior written consent of the Sublessor, nor will it allow any liens to be placed thereon, or suffer said property or any portion thereof to be attached or taken upon execution. In the event of the bankruptcy or the insolvency of the Tenant or any person claiming under the Tenant, or in the event that the Tenant's or such person's property may come into the hands of any assignee or anyone acting under the orders of any court then the Sublessor at its option may terminate this sublease.

14. The Tenant further covenants and agrees that it will not affix to or display from any part of the outside of the building on said leased premises any signs or advertisements except as such are reasonable and customary in the business. The Sublessor agrees to join with and cooperate with the Tenant in securing the necessary permits and other authorizations for the erection and maintenance of said signs.

15. The tenant further covenants and agrees at its expense to maintain the leased premises in a neat, clean and healthful condition and in every respect as required by laws and ordinances.

APPENDIX B (Continued)

16. All merchandise, fixtures, equipment and furniture installed or placed on the demised premises by Tenant may be removed by Tenant whether attached to the building or not provided that Tenant is not in default under this sublease or in default on any other obligation that Tenant has with Sublessor or Super Valu Stores, Inc. Tenant, at its expense, shall repair any damage to demised premises caused by such removal.

17. In case of non-payment of rent by Tenant the same shall, until paid, constitute a lien upon any and all property owned by the Tenant, located on the leased premises, and the lien may be foreclosed according to law. The Tenant shall not remove said property until said rent has been paid. No demand for rent shall be necessary to entitle Sublessor to the right therein stipulated.

18. No waiver of any default of Tenant hereunder shall be implied from any ommission by Sublessor to take any action on account of such default if such default persists or is repeated.

One or more waivers by Sublessor shall not be construed as a waiver of a subsequent breach of the same covenant, term or condition. The consent to or approval by Sublessor of any act by Tenant requiring Sublessor's consent or approval shall not waive or render unnecessary Sublessor's consent to or approval of any subsequent similar act by Tenant.

19. Words used in this instrument in the masculine gender include the feminine and neuter, the singular number includes the plural and the plural the singular wherever the context so requires.

It is expressly understood and agreed that the terms and conditions hereof shall be binding upon the heirs, successors, personal representatives and assigns of the respective parties.

IN WITNESS WHEREOF, the parties have executed this sublease upon the date first written above.

WITNESSES:	SUBLESSOR:
	SUPER VALU REALTY, INC.
______________________	
______________________	______________________
	TENANT:
______________________	______________________
______________________	______________________

APPENDIX C

SUPER VALU STORES Inc.
101 Jefferson Avenue
Hopkins, Minnesota

(Mail: Box 539, Minneapolis, Minnesota)

NEW ACCOUNT APPLICATION

______________________19______

Name in full______________________________________Age__________

Address______________________City___________State____________

Date of birth___________Place___________Nationality____________

Denomination (Methodist, Catholic, etc.)____________________

Marital status________If marries, how long______Wife's name

____________________Number of Children_______Ages____________

Other dependents____

Amount and sources of income from other than business_______

____

Have you ever failed in business or made a compromise settlement with your creditors: No, Yes, - Details:______________

____

Nature of any past due debts, claims in attorneys hands, suits or judgments against you__________________________

Have you any contingent liability as an endorser or guarantor for others: If so, give particulars________________________

Name and location of your bank______________________________

Two business references other than your bank:

_________________________ _________________________

RECORD OF BUSINESS EXPERIENCE

From	To	Employer	Address	Nature or Work	Reason You Left

APPENDIX C (Continued)

Business to be operated under your sole ownership? ______

Partnership? ______ Corporation? ______

If partnership, give names and addresses of partners and percentage of ownership. If corporation give name, state of incorporation and names and percentage of ownership of stockholders ______

PERSONAL FINANCIAL STATEMENT OF APPLICANT

ASSETS	LIABILITIES
Cash ______	Mortgage-Home ______
Home ______	Mortgage-Car ______
Car ______	Owed to friends, relatives ______
Other Real Estate ______	Owed to banks, etc. ______
Stocks, Bonds, etc. ______	Mortgage-other real estate ______
Net cash value-life ins. ______	Other debts ______
Other assets ______	Net worth ______
Total ______	Total ______

Remarks: ______

The undersigned represents the above information and statements are complete and accurate and that Super Valu Stores, Inc. shall rely on such information and statements in extending any credit.

Signed ______

Title or capacity ______

APPENDIX D

SUPER VALU STORES, INC.

General Offices   Hopkins, Minnesota

DIVISIONS

Aberdeen, Bismark, Des Moines,
Fargo, Green Bay

"SUPER VALU" RETAILER AGREEMENT

THIS AGREEMENT entered into between SUPER VALU STORES, Inc., hereinafter referred to as Supply Depot, and the undersigned independent merchant, hereinafter referred to as Retailer,

WITNESSETH:
In consideration of the mutual promises contained herein, it is agreed between the Supply Depot and the Retailer as follows:

THE SUPPLY DEPOT WILL:

1. License the Retailer to identify and advertise himself as a "Super Valu" dealer by the use of the "Super Valu" trade-name, insignia, emblem and colors.

2. Furnish to the Retailer adequate "Super Valu" store front signs on a rental basis, such signs being and remaining the property of the Supply Depot. The Supply Depot agrees to indemnify and hold harmless the Retailer from all loss, cost or damage on account of injury to persons or property occurring or resulting from the installation, maintenance or existence of any such sign to a limit of $50,000 for one accident.

3. Sell to the Retailer the entire line of merchandise carried by the Supply Depot at Supply Depot's cost or adjusted cost or on a markup basis F.O.B. Supply Depot.

4. Provide the Retailer with field advisory, warehousing, buying, merchandising, shopping, advertising, accounting, store engineering, and bulletin services.

THE RETAILER WILL:

1. Pay to the Supply Depot fees and charges for merchandise and services provided by Supply Depot according to its applicable schedules, terms and conditions.

2. Comply with all standards and conditions set forth in the "Super Valu Protection Policy", a copy of which the Retailer hereby acknowledges he has received, read, understands and accepts.

APPENDIX D (Continued)

3. Not question or contest during or subsequent to the life of this agreement the validity of Supply Depot's ownership, right or control of any trade-mark, trade-name, emblem, insignia, or type of "Super Valu" identification.

5. Acknowledges the Supply Depot's right to choose and select its customers and dealers and to enter into Super Valu Retailer Agreements with other parties at Supply Depot's sole choice and discretion, and further adknowledges that in the event of termination of this agreement Supply Depot has no obligation to continue to sell or supply merchandise or services of any kind to the Retailer.

This agreement shall become effective on the date appearing below, and shall continue in full force and effect until terminated by either party hereto upon one week's notice in writing. In the event of termination, the Retailer agrees that within one week following the effective date of such termination he will discontinue the use of the "Super Valu" trade-name, trade-mark, emblem, insignia and all other "Super Valu" identification, and any names or marks confusingly similar thereto. Further, the Retailer will return any "Super Valu" sign or signs being the property of the Supply Depot to the Supply Depot, in good condition, tansportation charges prepaid, and will repaint the store front in other than red and yellow "Super Valu" colors, and do all things necessary to advise and inform the public that his "Super Valu" affiliation has terminated.

In the event the Retailer fails to comply with the terms of this agreement following its termination the Supply Depot shall have and is hereby given the right to enter the Retailer's place of business and thereupon take possession for itself and for its own use all "Super Valu" identification, and the Retailer hereby agrees to reimburse the Supply Depot for the Supply Depot's cost and expense incurred in such taking possession and removing and changing such identification.

EFFECTIVE DATE_______________, 19_____

Dates this_________day of____________, 19_____

SUPER VALU STORES, INC.

By______________________________

Supply Depot

____

Retailer

____

Field Representative

Trade Name__________________

____

Address

APPENDIX E

SUPER VALU PROTECTION POLICY

SUPER VALU STORES, Inc. was a pioneer in the development of the so-called "Voluntary group" method of food distribution through a group of carefully selected independent retailers. Based on its experience it has adopted the following creed:

> "It is the impelling motive of Super Valu Stores, Inc. to provide its affiliated dealers with the advantages of low cost warehouse operation, distribution, operating know-how and aggressive merchandising so essential to the development of a strong, successful group of modern, independently owned food stores."

This relationship between the retailer and the wholesaler places a responsibility on both parties. The retailer has the responsibility of cooperating with the wholesaler to the greatest possible degree in order to build the wholesaler's buying power and develop its operating efficiencies to the utmost. Each retailer also has a responsibility to the other affiliated retailers in the group to maintain high and efficient standards in the operation of his store in order that all affiliated retailers may benefit mutually from the successful operation of the others. Such a group of retailers either gains respect in the eyes of the consumer and, therefore, prospers and goes forward, or because it contains members that are inefficient, inadequate or fail to maintain high standards the entire group loses the respect and, therefore, the patronage of the consumer.

The wholesaler has the responsibility of doing its utmost to develop this strength and loyalty of the retail group, to maintain among the individual retail members high standards of store appearance and operation and to be ever alert and aggressive in furnishing the retail members with the most modern and efficient warehousing facilities as well as merchandising, store engineering and operating advice and assistance.

Outlined in this Super Valu Protection Policy are the factors that are important and necessary to develop and maintain a strong "Super Valu" group. All parties must keep in mind that if chain competition is to be met the efficiencies of the corporate chain must be duplicated and in addition, the advantages of independent ownership and initiative must be capitalized.

APPENDIX E (Continued)

Super Valu Stores, Inc. has established and is constantly seeking to improve various functions and services to the affiliated dealers. These services and functions cover all phases of retail operations including merchandising, promotion, advertising, insurance, personnel, store engineering and lay out, equipment and accounting. In order to establish close working arrangements, to develop overall efficiency both at the wholesale and retail levels and to bring these services to the retail stores in the most efficient way possible Super Valu Stores, Inc. maintains and provides two staffs of Field Representatives. One covers groceries and produce operations and the other meat and frozen food operations. These Field Representatives are qualified to render competent assistance and advice in all important functions of retail store operation. They are men fully acquainted with retail operations who have undergone rigid courses of instruction, and whose activities are closely scheduled and directed by Super Valu Stores, Inc.

It has long been recognized by the industry that no retail food merchant can operate successfully without complete and accurate records. To fill this need Super Valu Stores, Inc. maintains at its Hopkins and Des Moines Divisions Retailer's Service Departments, which departments are qualified to handle the auditing, accounting, tax returns and records of the affiliated retailers.

The services performed and made available by Super Valu Stores, Inc. are essential to the success and growth of the affiliated retailers, and the fees and charges to the retailers by which Super Valu Stores, Inc. is reimbursed for these services are as low as sound operation will permit.

Based upon the foregoing considerations and purposes and the efforts of Super Valu Stores, Inc. as the wholesaler to fulfill its responsibilities certain standards and conditions for affiliation have been adopted from ideas and suggestions of the affiliated members themselves. Meeting these standards and conditions means protection of the "Super Valu" name and organization for all its members.

STANDARDS AND CONDITIONS

1. General

A. To be eligible for a Super Valu franchise a store shall have a potential retail sales volume of $5,000 per week and a minimum store area of 3,500 square feet. These are minimum requirements, but in many localities larger facilities are required.

APPENDIX E (Continued)

B. All departments of the store shall be staffed with competent personnel.

C. Each order placed by the retailer shall be accompanied by a signed blank check written in ink and payable to the order of Super Valu Stores, Inc.

D. The retailer shall subscribe to Super Valu Stores, Inc. Retailer's Service Department's accounting service unless the retailer maintains a similar adequate system and furnished periodic copies of reports and statements to Super Valu Stores, Inc.

E. The "Super Valu" and other trade-marks, trade-names, emblems, insignia and means of identifying the retailer as a "Super Valu" affiliate are and remain the property of Super Valu Stores, Inc., whose right to the same shall at no time be contested or questioned by the retailer, and shall only be used by the retailer to identify himself as a "Super Valu" dealer and not as a trade-mark or label on merchandise.

F. The retailer shall subscribe to Super Valu Stores, Inc. grocery and produce Field Representative service. In view of varying individual store requirements, subscription to the meat Field Representative service is optional with the retailer.

2. Physical

A. The exterior front and entrance of the retailer's store shall be maintained constantly in an attractive condition with store signs limited to the retailer's name and "Super Valu" identification.

B. "Super Valu" identification shall consist of a minimum of one "Super Valu" emblem, (standard sizes being 4 ft. by 6 ft., 6 ft. by 9 ft., and 8½ ft. by 13 ft.) or its equivalent and two "Super Valu" decals at eye level attached to windows or entrance doors.

C. The retailer's store shall consist of complete grocery, produce, frozen food and meat departments.

D. The interior of the store including the walls, ceiling, floor, shelving and display equipment shall be maintained constantly to present a clean and attractive appearance.

E. The interior sales area of the store shall contain sufficient lighting fixtures to provide a minimum of 35 foot candles of light intensity.

APPENDIX E (Continued)

F. The store layout and equipment shall be approved by Super Valu Stores, Inc. engineering department.

3. Merchandising

A. The store shall be operated on a cash basis in all departments and the grocery department shall be self-service.

B. The retailer shall cooperate with Super Valu Stores, Inc. on all larger promotions.

C. "Super Valu" identification shall be prominent in all advertising.

D. The retailer shall be competitive and follow Super Valu Stores, Inc. suggested retail prices (SRP) as far as is practical.

E. All price, cost discount and other information from Super Valu Stores, Inc. with regard to merchandise, equipment, sales and promotions of any nature must be treated in confidence.

F. There shall be full cooperation with Super Valu Stores, Inc. order mailing and delivery schedules and in assisting in the unloading of merchandise upon delivery.

G. The dealer shall attend all district and central dealer meetings as far as is reasonably possible.

H. The retailer is not to offer private brands of merchandise controlled by Super Valu Stores, Inc. to nonaffiliated persons for resale.

I. All purchases of groceries, produce, meats and frozen foods shall be made exclusively from Super Valu Stores, Inc. insofar as is consistent with sound operation.

J. 18K and Red Rooster coffee shall be stocked and featured and a satisfactory coffee mill as recommended by Super Valu Stores, Inc. shall be installed and maintained.

Dates at______________________

This____day of________195____

____
Retailer

APPENDIX F

Super Valu Stores, Inc.
Green Bay Division
Green Bay, Wisconsin

May 23, 1958

TO ALL FRANCHISED MEMBERS:

Undoubtedly, you have heard the rumor that your supply depot has gained control of two Krambo Super Markets in Green Bay (one located on Adams, the other on Monroe).

This letter is to confirm the truth of this fact and to indicate our future course of action in regard to these units.

The large store (16,500 square feet) on Adams is to receive a major remodeling and face lifting so as to present a "new look" to the shopping public of this area. This market, of course, will bear the Super Valu identification.

The store on Monroe Avenue will not be remodeled at the present time, but will be operated as a U-Save Superette.

Both of these stores will be Company owned and operated during the initial stages of their development.

It is also the intent of this letter to convey to you our thoughts relative to these and other Corporate Stores operated by your Company. As you know, we are a pure Voluntary Group Wholesaler, with no intent of entering the Corporate Field on a permanent basis. Corporate Stores do play a role in our development plans where a prime location or market is available, and when we are unable to interest an independent Operator in its development. Such is the case with these two units in Green Bay.

All Corporate Stores which your Company operates (We now have 6 stores in 9 states.) are always available for sale to any one of our franchised members, providing the interested dealer has adequate capital and operating know-how and that negotations can be completed on a basis satisfactory to both parties.

This letter is rather lengthy, but I so strongly feel that you should know our thinking and attitudes in respect to Corporate Stores that some detail is necessary at this point. We are <u>not</u> becoming a Corporate Chain through the acquisition of these Green Bay Stores, but are merely attempting to establish our position in this market on as sound and advantageous a basis as possible.

Should any of our dealers be interested in either one of these Krambo Super Markets which we are purchasing in Green Bay, please contact us. They are available if satisfactory financial arrangements can be made.

If you have any questions in respect to the context of this letter, please advise me and I will personally call on you to explain our position more fully.

SUPER VALU STORES, INC.
Green Bay Division

Tom Harrison, Jr.
Division Manager