

THE HISTORICAL DEVELOPMENT  
OF FOOD DISTRIBUTION

BY  
GORDON LOREN COOK, JR.

1961

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THE HISTORICAL DEVELOPMENT OF FOOD DISTRIBUTION

by

Gordon Loren Cook, Jr.

A THESIS

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

MASTER OF ARTS

Department of General Business  
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## DEDICATION

This thesis is dedicated to  
the author's wife, Jeanne Thompson  
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Loren Cook, III, Nancy Anne Cook, and  
Suzette Lucille Cook. They have been  
largely responsible as the motivating  
forces, and encouragements behind this  
work.

## CHAPTER 1

### INTRODUCTION

#### Purpose of Thesis

Throughout the years, many works of great value and interest have been written about all phases of food distribution. Among these works are included many tracing the historical development of various individual segments of the food field. One is able, with some effort, to secure historical information about consumer cooperatives, government stores, industrial stores, chains, and voluntary and cooperative groups as they are related to food distribution. However, much that has been written about these basic segments of the food field, historically or otherwise, is either antiquated, out of print, or unavailable through any channel of information. Also, little has been written recently to bring the historical picture up to date. Actually, as far as the author has been able to ascertain, there is no overall story of the historical evolution of mass food distribution.<sup>1</sup> As previously mentioned, some of the various sections of food distribution have recorded their stories, but a reader desiring the comprehensive picture has to do much searching, reading, and mental correlation to get it. Even then it will not be

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<sup>1</sup>As verified through correspondence with Gordon Cook, Cook Publications, New York, 1956; reconfirmed 1961 per phone.

an up to date picture upon which one might venture to predicate future trends in food distribution.

With these considerations in mind, this work is submitted to the reader as an overall study of the historical development of mass food distribution. This study is intended to impart an integrated picture of all the various contributing sections. It is the writer's intent that when the reader has completed this thesis he will have attained a broad, general, and yet accurate knowledge of this field.

### Importance of the Study

In gaining knowledge of food distribution, basic study of the different distributive organizations is axiomatic. Likewise, it would seem that a basic study of the history of the organizations comprising the total food distributive field should also be axiomatic.

### Limitations

To the best of his knowledge, the author has tried to secure accurate information confirmed from several sources.<sup>2</sup> Some conflicting information became apparent where writers tended to slant history in an effort to add prestige to the particular segment of food distribution they were writing about. A determined effort has been made to correct this natural human tendency.

In addition, it must be realized that this thesis is historical

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<sup>2</sup>See bibliography

and does not touch upon operations of the distributive organizations discussed as they pertain to new developments. To go very deeply into operations would, of necessity, go far beyond the scope of this thesis.

### Definitions

In this thesis the author has used certain terms. These may be defined as follows:

A "corporate chain" is an organization operating more than ten retail food distribution outlets under the same ownership with central management. Previous figures have placed the number of stores at four, three and even two.<sup>3</sup> When the number of stores required to be classified as a chain is placed at one of these lower figures, there will actually be more independent grocers in the chain field than legitimate chains, as defined in the first sentence of this paragraph, since there are literally thousands and thousands of families across America with adult sons and daughters each operating an independent grocery. Such an operation is the Carty Brothers in Los Angeles. Here seven brothers operate eight very large super markets. Henry Carty, President, is also chairman of the board of Certified Grocers of California, Limited, an independent retailer-owned or cooperative group.

A "retailer-owned" or "cooperative group" is composed of retail grocers leasing or owning their own warehouses. They employ a

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<sup>3</sup>Letter from Gordon Cook, Editor and Publisher, Voluntary and Cooperative Groups Magazine, August 13, 1956; reconfirmed 1961 per phone.





manager, and the warehouse attempts to function in much the same manner as the headquarters of a corporate chain. These retailers buy and sell together. They participate in any savings proportionate to patronage. Certified Grocers of California, Limited, which operates one of the biggest and most economically run grocery warehouses in the country at Los Angeles, is the Paul Bunyan of all super markets in the west.<sup>4</sup>

A "jobber-sponsored" or "voluntary group", exists where a wholesale grocer functions as the headquarters organization for a number of retail grocery outlets under contract with the wholesale grocer. The wholesaler sponsoring a good voluntary group attempts to do substantially everything for the retail members of the group that a good corporate chain headquarters would do for its retail outlets. Red and White Stores, I. G. A., Clover Farm, and others are examples of voluntary organizations.<sup>5</sup>

In the minor segments of the food distribution field, the following definitions will apply:

A "consumer cooperative" in the food distribution field exists where consumers develop their own retail outlets which are frequently tied up with a consumer cooperative warehouse. Both the store and the warehouse are financed by the consumers. In theory, these consumers receive interest on their investments and patronage dividends on their purchases.<sup>6</sup>

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<sup>4</sup>Ibid.

<sup>5</sup>Gordon Cook, "Chains--Voluntary Group--Cooperative Groups--Organizations, Number of Stores, Dollar Volume, "Voluntary and Cooperative Groups Magazine, October 1955, p. 30; reconfirmed 1961 by telephone.

<sup>6</sup>Letter from Gordon Cook, Editor and Publisher, Voluntary and Cooperative Groups Magazine, August 13, 1956; reconfirmed 1961 by telephone.

An "industrial store" is a modern general store with a well-equipped food section, operated by or affiliated with the nation's major industries, such as coal, steel, textiles, lumber, etcetera, and mainly serving the employees of the parent companies.<sup>7</sup>

In defining a "government commissary", consideration must be taken of the fact that there are two basic types of government retail stores. One of these is the "PX", officially designated the Army and Air Force Exchange Service, or in the Navy they are called Ship's Service Stores. This type of store is private enterprise but within the military. These stores are not tax-supported.<sup>8</sup>

For the purposes of this thesis, primarily the other type of government retail store, the "commissary", will be discussed, although it is not a food distribution outlet of the modern private enterprise size, being restricted to food items only and a limited number of these. The commissary is a retail food establishment, operated on military bases or within government territory, supported entirely by taxes, serving on a non-profit basis persons authorized by a Federal law to make purchases.<sup>9</sup>

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<sup>7</sup>Letter from Hull Bronson, Executive Secretary, National Industrial Stores Association, Washington, D. C., 1956.

<sup>8</sup>Department of the Army, Office of the Quartermaster General. 1. Fact Sheet-Army Commissaries. 2. AR 31-170. 3. AR 31-172. 4. AR 31-177. 5. AR 31-170.

<sup>9</sup>Ibid.

## Methodology

In order to secure the most and the best of the information available, several sources were examined thoroughly:

First, published works and articles by recognized authors in the varying levels of the food distribution field.

Secondly, considerable correspondence was exchanged in the further search for information. Questionnaires were sent out by the author, in all cases requesting primarily historical information -- the response was gratifying.

Finally, it was the author's privilege to interview a number of leaders in the food distribution field concerning the theme of this thesis. Their comments were invaluable aids and contributed immeasurably toward the fulfilment of this task.

## Preview

The author will attempt to survey the food distribution field on an international scope, embodying the historical development of both the major and minor segments. The minor segments will be dealt with in one chapter since their importance in today's picture of food distribution is considerably less than formerly. The major segments will be discussed in individual chapters, in accordance with their overall significance.

A summary chapter will include the story of food distribution as the author sees it.

## CHAPTER 11

### MINOR FOOD DISTRIBUTION SEGMENTS

#### Consumer Cooperative Groups

A consumer cooperative group as related to food distribution has been defined as an organization that exists where consumers have invested their money to develop their own retail outlets. These are frequently affiliated with a consumer cooperative warehouse, which is also financed by the consumers. In theory, interest is paid these consumers on their investments; in addition, they receive patronage dividends on their purchases.

Broadly speaking, a cooperative society is a voluntary association in which people organize democratically to supply their needs through mutual action and in which the motive of production and distribution is service, not profit.<sup>1</sup>

First stirrings of cooperative action. There are varying opinions as to the exact year in which the consumer cooperative movement started. Many generations, goaded by poverty and injustices, had sought to better their conditions through joint action prior to 1815. Between 1815 and 1833, there began a widespread series of experiments

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<sup>1</sup>James Peter Warbasse, Cooperative Democracy (New York: Harper and Brothers Publishers, 1936), p.7.

during which time Robert Owen was considered the leader and prophet.<sup>2</sup> His New Lanark Mills was a concrete reaction against the slum conditions then existing in England as a result of the Industrial Revolution. Through his humanistic efforts New Lanark in the early 1800's became a model factory town, known all over Europe for being the one bright spot in terrible industrial dreariness.

Eventually, the consumer cooperative movement spread. Until prior to 1835 there were some 300 to 400 consumer cooperative organizations in England and Scotland. However, by 1840, lack of loyalty of the group members weakened the organization to such an extent that they gradually lost favor and decreased in number.

The Equitable Society of Rochdale Pioneers. The Rochdale Consumer Cooperative movement started in Rochdale, England, on December 21, 1844. Although it was by no means the first such movement, practically all consumer cooperatives now in existence have been established on the Rochdale principles, to be discussed later.<sup>3</sup>

On this historic date, a small band of twenty-eight flannel weavers, calling themselves the Equitable Society of Rochdale Pioneers, oppressed by the hard times of the era, opened a small grocery store on Toad Lane. Having only \$140.00 to invest in a meagre stock of

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<sup>2</sup>Agnes D. Warbasse, The Story of Cooperation (New York: The Cooperative League of America, 1921), p.3.

<sup>3</sup>Ibid.

flour, oatmeal, candles, butter, and sugar, their beginning was truly humble, consequently much ridiculed.

From this obscure beginning, the venture grew steadily in spite of the poverty of the times. At the end of the first year, membership had grown to seventy-four members, total capital \$900.00--this notable advance from the original twenty-eight members with total capital of \$140.00. In like manner, with slow but sure progress, the Rochdale movement prospered. Based upon its principles, consumer cooperatives are now operating throughout the European countries and the United States.

The Rochdale Principles. In essence, these principles are based upon certain rules, for example:

Rule 1. Open membership. No one to be excluded because of race, creed, or color.

Rule 2. One member, one vote. No voting by proxy.

Rule 3. Share capital to receive a moderate, fixed return.

Rule 4. Surplus of an association to be returned to members in ratio to their purchases.

Rule 5. Neutrality of the co-op in religion and politics.

Rule 6. Trading on a cash basis.

Rule 7. Education of members with particular attention to

Consumer Cooperative Principles.<sup>4</sup>

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<sup>4</sup>Bertram B. Fowler, The Co-op Challenge (Boston: Little, Brown and Company, 1947), p. 12.

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The seventh rule has become the most important of all the Rochdale Principles, especially in America. The Rochdale weavers foresaw if their members were not educated in the nature of their business, such membership would become apathetic. The co-op might fall into the hands of incompetent leaders, placed in power by voters unschooled in the requirements of the tasks to be performed. As a consequence, by the simple force of inertia, weak leadership would result.

Consumer Cooperative Status Today. To obtain a true picture of the consumer cooperative's historical effect on food distribution practices today, it is necessary to take a calm and reasonable view of the situation. Research appears to point to more idealism and less realism surrounding this form of food distribution than any other.

Consumer cooperatives, exclusively in the food distribution field, have made practically no progress in this country for more than one hundred years. They account for only a small fraction of one per cent of food distribution. Their trouble is not a lack of wholesale organizations of their own or lack of cooperative brands. As has been suggested previously by others studying the general failure of consumer cooperatives in food distribution; the real cause of the failure lies in the fact that the margin of profit in food distribution is so narrow that there are no patronage dividends to be parceled out.<sup>5</sup>

Going abroad to the birthplaces of consumer cooperatives,

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<sup>5</sup>Telephone conversation with Cordon Cook, Cook Publications, 1961.

the strong influence of Socialism makes itself felt very strongly as one reads the booklets "Konsum - Stockholm" and "In our own hands." The Co-operative Society of Stockholm, popularly known by the Swedish people as Konsum, was founded in 1916 and is the second largest society in the world. Konsum represents the realization of a century-old idea, an idea which can be expressed by a single word: cooperation -- the cooperation of the consumers of all social groups within the community to secure their common interests.

The activities of Konsum conform to Rochdale principles as interpreted by the International Co-operative Alliance, i. e.: open membership; democratic management; dividend from surplus in relation to purchases; limited interest on share capital; cash trading; political and religious neutrality; allocation from surplus for carrying on educational work.

Originally patronized in the early days by the working classes, drawn by Konsum's low prices, today all classes of the community know the advantage of being a member.

Food products constitute a large part both of the family's budget and of Konsum's turnover. One quarter of the food trade of Stockholm goes through the turnstiles of Konsum.

In 1957 Konsum operated 100 grocery stores, 100 combined food stores, 150 self service stores, 30 fish shops, 100 butcher shops, 350 milk and bread stores, two bulk purchase stores.

The management of such a gargantuan enterprise is necessarily thorough, but simple. It is not carried out on the basis of quantity but on value. The manager of a store has only to check the value of goods delivered to him. The total of these deliveries, plus the stocks, is checked twice a year with the books. Tally on sales is kept by means of the use of cash registers. Each payment is automatically recorded on a list sent monthly to the central accounting office.<sup>6</sup>

Mute testimony to the fact that Sweden respects the Rochdale Principles is to be found in the Mordic Rochdale Monument situated in the grounds of the Co-operative College at Saltsjöbaden.<sup>7</sup>

In England, Scotland and France claims for recognition are less strident than those made by the Swedish, but on the other hand each of these countries have attained only about one-half again as high a percentage of distribution as the Swedish cooperatives.

### Industrial Stores

The industrial store is a modern general store with a well equipped food market, operated by or affiliated with the nation's major industries, such as coal, steel, textiles, lumber, etcetera, and mainly serving the employees of the parent company.

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<sup>6</sup>Konsum - Stockholm, Stockholm: AB Anders Beckman; R. Klang; AB Trycksaker, 1957, p. 37.

<sup>7</sup>John Lundberg, In our own hands, Stockholm: Kooperativa Förbundets Bokforlag, 1957, p. 15.

Another description is that an industrial store is a retail institution established and operated by the owners of major extractive and manufacturing industries to provide the essential consumer goods and services required by their employees. This type of store is more commonly known as the "industrial" or "company" store, although there is some trend away from the usage of the former term.<sup>8</sup>

#### Foreign History.

England. The industrial or company store has existed for several centuries in England as a part of a system called the "truck" system. Under this arrangement, the worker received in exchange for his labor a commodity of some kind which he, in turn, would exchange for whatever he might desire or need in the way of food, drink, clothing, fuel, or shelter. The first attempted control of this truck system, in which abuses were abundant, came with the Act of 1464, during the reign of King Edward IV. In brief, this Act attempted to stipulate that laborers should be paid "lawful money for all their lawful wages."<sup>9</sup> However, this Act and others subsequently following from 1726 to 1831 failed to stem the abuses of the truck system. These Acts became known commonly as the Truck Acts.

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<sup>8</sup>Ole S. Johnson, Ph.D., The Industrial Store (Atlanta: Foote and Davis, Inc., 1952), p. 3.

<sup>9</sup>Ibid., p. 11

In 1854, A Committee of Parliament was appointed to examine the truck system, but no further legislation resulted from this investigation. Finally, as a result of more unrest and agitation among the working classes, Parliament appointed a special Royal Commission to investigate the truck situation. A thorough examination was made and a complete report filed. As a result of this, the Act of 1887 was passed extending wider coverage to the worker and virtually abolishing the truck system in England. Two later investigations in 1896 and 1908 were primarily concerned with work stoppages, fines, and penalties imposed upon workers.

In the development of the American company store system many of the characteristics of the English truck system became apparent. Also, many of the same evils and abuses arose. Food distribution through this system, therefore, left much to be desired, especially as related to prices and quality.

#### France and Germany.

Development of the industrial store in France paralleled its growth in the United States, coming as a result of the Industrial Revolution and heavy industrial development in France in the middle nineteenth century. Isolated areas made company stores necessary; on the other hand, they were established in other, less remote areas, to combat the high cost of living. Abuses by absentee owners of the

company store or "economat" system led to legislation intended to suppress it or the Act of March 25, 1910.<sup>10</sup> The company store was thus either abolished, closed, or very closely controlled in its operation in France.

In Germany, close control was also exercised over the industrial store. Generally, the laws of the German Empire in 1908 stated that all wages were to be paid in cash with payments in kind, or truck, permitted only under previous agreements. Legislation of this type led to the formation by industrial owners of stores of the "workskonsuman stalten" or stores operated on a semi-consumer's cooperative basis. Unlike the United States, the volume of these stores never aggregated a large figure, and the workshonsuman stalten cannot actually be considered the German counterpart of the American Industrial store.

#### European and Non-European countries.

Even before World War I, most of the important industrial countries of Europe had either abolished or curtailed strictly the operations of the company store. The only exception to this seems to be Poland, where company stores were permitted to operate under license from the local labor inspector. The same situation seems to apply to the non-European countries, with Bolivia in this respect being

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<sup>10</sup>  
Ibid., p. 14

the exception. In 1946, a decree was issued by Bolivia, requiring all enterprises operating away from population centers to establish company stores. This, of course, was directly opposite to the trend toward elimination of the stores in most foreign countries.

### United States History.

The history of the industrial store in this country was closely aligned with the history of our coal and other extractive industries. In conjunction with the development of the railroads serving the southern textile industry, company stores in remote areas evolved as an integral element in their operations. Food distribution in isolated areas really owes its inception to these stores, especially those in the coal regions. Over two-thirds of all company stores in the United States operate in the coal fields.<sup>11</sup>

As in the European and non-European countries, legislation in the United States was directed at the industrial store, in efforts to control or eliminate it. Until 1933, thirty-two different states -- Pennsylvania foremost--had passed legislation controlling, limiting, or forbidding the operations of company stores or of some of the practices which accompanied their operation. Since 1933, when the Federal Government attempted to regulate stores under the National

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<sup>11</sup>Hull Bronson, "Industrial Stores: A sleeper Market Serving 10 Million Consumers, " Food Business, October 1956, p.12.

Recovery Administration, there has been little legislation on a state level.

From 1901 to the present, there have been a series of investigations by the Federal Government into the industrial stores of America. These investigations affected most notably the tri-state area comprising Western Pennsylvania, Northern West Virginia, and Eastern Ohio, which is-of-course-where the heaviest concentration of industrial stores is located. Essentially, legislation resultant of these investigations paralleled that of the other states. Not until approximately 1934 was there any rallying to the cause of the company store, when the issue again became important through the establishment of Codes for the Retail Trade, the Retail Jewelry Trade, and the Retail Food and Grocery Trades. Two subsections prohibiting the issuance of non-negotiable scrip and payroll deduction for credit accounts were proposed which, if approved, could have meant the end of the company store system. Such strong protest arose that a committee was appointed by the President to investigate industrial stores. Although only a few short months after the Committee finished its investigations and filed its report with the N. R. A., the whole N. R. A. experiment collapsed by a Supreme Court decision, there was some lasting effect on the company store industry in spite of the fact that the regulation never really got into full operation against it. The possibility of the original provisions putting industrial stores out of business made a large number of the parent company operators aware of their responsibilities as retail merchants. It likewise caused many of



the store managers and store operating executives to take stock of their general management policies, and to make revisions in those places where they were called for. In 1937, similar "death bill" proposals, although defeated, once again stirred those connected with company stores to conform to federal regulations.

With the recognition of good business practices, the industrial store grew in the thirties in both number, sales, and better relationships between store management and the worker customers. This growth has continued both throughout the forties during which the company store industry tried in every possible way to further the total war effort, and into the fifties. A recent development in industrial store industries is that of the companies' disposal of the company houses which they have traditionally owned and maintained. The workers in these industries thus became no longer tenants, but proud home owners, willing to expend time and money on their homes and generally to live in a more comfortable atmosphere and enjoy better foods. The net effect was to further increase the sales volume of the industrial stores.

#### Present status in America.

Industrial stores in modern America enjoy historical importance in the story of food distribution.

Over half (or some fifty to sixty per cent) of the sales volume of the nation's industrial stores today is in food items. There are over

3,000 of these stores, the majority of which are located in the coal and steel areas, where they are very important retail outlets. The typical industrial store does an annual average volume of about \$450,000; it carries over 4,000 items in its food department with great stress placed on fine meat and produce. Most food departments are self-service, with frozen foods featured.

The industrial or company stores today serve approximately ten million customers with everything they eat, wear, and use.<sup>12</sup> An example of the larger and more important industrial stores companies is the Union Supply Company, the outgrowth of the H. C. Frick Stores Company originally founded in 1872 by Henry C. Frick, a famous pioneer name in the development of company stores.<sup>13</sup> This company is a subsidiary of the United States Steel Company, with several large shopping centers and a total of over sixty stores doing nearly 40 million dollars annually. It is the largest industrial store chain. Although industrial stores have approximately two per cent of the total food sales in the nation, they constituted an important factor in the historical development of food distribution.

#### Government Stores

No study of the cooperative movement can afford to overlook

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<sup>12</sup> Ibid.

<sup>13</sup> Johnson, op. cit., p. 32.

the expression of this phase of its growth in the government commissaries, or post exchanges. Historians note the appearance of this phenomenon in Caesar's armies--the movement, generally, reflects favorably upon the compassion of the officers in charge, who recognized their responsibility to accord to the man in uniform the same privileges accorded his civilian counterpart. It comes somewhat as a shock to realize that the soldiers themselves formed cooperative groups, in order to guarantee their own welfare.

Sutlers. Under the Articles of War of 1776 the sutler appeared on the horizon. They served military personnel for ninety years. Malpractice led to their abolition by Congress in 1866.

Post Traderships and Canteens. These stores remained prevalent on the scene supplying the needs of soldiers not adequately available by government issue. The War Department having taken note of the need implemented the organized operation and management of post canteens recognized by Congress. In 1892 the post canteens were permitted to use public buildings and public transportation for their operations.

Post Exchange. The post exchange was to combine the features of reading and recreation rooms, cooperative store and a restaurant. Its primary purpose was to afford service men the luxuries not supplied by the government.

Army Exchange Service. In 1941 the Army Exchange Service

was established. Independent operation was characteristic of the post exchanges; thus at the same installation there might be several completely unrelated exchanges.

World War I. The war placed a sudden demand upon the post exchange. In 1941, a report on the exchange structure was made to General George C. Marshall. The findings of this committee are embodied in legislation.

World War II. The Army Exchange Service was organized in 1941. Exchanges have operated under three systems: the independent, Limited Centralization and Advent of Centralization. Of the three systems, the system of centralization has been the one under which the exchange has<sup>14</sup> been able to fully meet its mission under present day conditions.

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<sup>14</sup> "Resume History of Army and Air Force Exchanges," Headquarters Army and Air Force Exchange Service, 25 West 43rd Street, New York, N. Y., p. 18.

## CHAPTER 111

### CORPORATE CHAINS

#### The Chain defined

As has been mentioned under "Definitions" in the first chapter, all organizations in the independent field--which accounts for approximately sixty-five per cent of total food distribution--agree that a corporate chain exists when it is an organization operating more than ten retail food distribution outlets, under the same ownership with central management.<sup>1</sup>

A more detailed description of chain stores is that they are a number of large scale retailing outlets, owned and operated by one organization. By having a joint management to carry out major planning and financing, a chain is able to economize on many expenses and can thus market consumer goods more cheaply than unorganized units. A principal characteristic is standardization in operation and merchandise. Like hotel chains, bank chains, mail order houses, department stores, and similar related enterprises, food distribution chain stores especially owe their phenomenal development in the twentieth century to improved distribution and transportation methods to an increased market, and to the need to make higher living standards more fully available to larger

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<sup>1</sup>Gordon Cook, "Chains--Voluntary Group--Cooperative Groups--Organizations, Number of Stores, Dollar Volume," Voluntary and Cooperative Groups Magazine, October 1955, p. 30; reconfirmed 1961 per phone.

numbers of people.

At the retail level, chain food store merchandising has made an outstanding contribution toward bringing goods and services from producer to consumer with a maximum of efficiency and a minimum of cost. Added stores to the chain mean added volume, and the ability to warehouse merchandise sold in the retail outlets, instead of purchasing from a wholesaler; ability to purchase in larger quantities and to transfer merchandise to retail stores, without the necessity of maintaining salesmen, or of dividing volume with two or more wholesalers; ability to advertise jointly for a group of retail outlets; and ability to secure and use the services of experts in various fields, such as personnel selection and training, record controls, site selection, store design, and layout, and so forth, and spread the fees exacted by these experts over a number of units. The result then is, besides greater efficiency, reduced prices because of lower costs and elimination of extra profits by the middleman.<sup>2</sup> The unaffiliated, unorganized independent retailers and wholesalers cannot match this although organized independents in the form of Voluntary and Cooperative Groups can do so as will be outlined in the next chapter.

#### Creation of the Chain System.

The chain system, despite its tremendous and greatest develop-

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<sup>2</sup>From material supplied by the National Association of Food Chains, Washington, D. C., October 1956; reconfirmed per phone conversation with John Logan, President, 1960.

ment in modern times, is by no means a creation of this era. Although this fact is probably known to a great many people, it seems less well known that the chain store system in retail distribution antedates the Christian era.

Species of chains of the retail distribution type have been unearthed by historians as far back as ancient Rome, and in China about 200 B.C. One LoKass, a Chinese merchant, established a distribution system involving the use of a large number of stores throughout the Celestial Empire 200 years before Christ.<sup>3</sup> Greek and Roman records indicate the existence of central ownership and management of retail establishments in the heyday of their respective civilizations. A poster found in Pompeii, destroyed in A.D. 79, advertised for lease a certain property which consisted of 900 retail shops.<sup>4</sup>

For more than two centuries, beginning with the fifteenth, the Fugger family of Augsburg, Germany, owned and operated an industrial and commercial organization which had in it many elements of the present day chain system. In addition to manufacturing textile fabrics, mining and banking, the House of Fugger also engaged in international trade and operated both wholesale and retail shops for the sale of its products, although in later years its earnings were derived principally from dealings in money.

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<sup>3</sup>John P. Nichols, The Chain Store Tells its Story (New York: Institute of Distribution, Inc., 1940), p. 13.

<sup>4</sup>Theodore N. Beckman, Ph.D., The Chain Store Problem (New York and London: McGraw-Hill Book Company, Inc., 1938), p. 14.

The Mitsui group, another system which is to all intents and purposes, a chain store company, had its origin in Japan. It first appeared in 1643 as a chain of apothecary shops, and to this day is still a powerful organization in the drug business. In addition, its interests now cover manufacturing, mining, banking, insurance, engineering, as well as merchandising in both foreign and domestic markets.

The Hudson's Bay Company is considered to be the oldest chain organization in the Western Hemisphere. It was chartered by the British Crown in 1670 under the title "Company of Gentlemen Adventurers of England trading in Hudson's Bay," and began to establish trading posts on the North American continent prior to 1750. This company is, of course, still very much in operation.

It is claimed that the second oldest chain in the Americas was founded in Brazil, when, well over a hundred years ago, a Scotchman named Charlee emigrated there and opened a shoe store. As the business grew, he added other stores, thus forming the Campanhia Caleodo Clarke which is also still in operation today. Andrew Jackson at one time owned a small chain of retail stores in Tennessee.

#### Development in America

It is generally agreed that the start of the food chain store organizations in America as we know them today occurred back in 1858. A small store opened its doors in that year on Vesey Street, in New York,



which was destined to reorganize our entire American distribution system. It was owned and operated by George F. Gilman, a New York hide and leather merchant, who was so convinced that the American consumer was being grossly overcharged on tea and coffee that he started the Vesey Street store enterprise in order to give them high quality tea and coffee at lower retail prices. Associated with him in this venture was George Huntington Hartford, formerly the St. Louis representative of Gilman's hide and leather business.<sup>5</sup> Thus was the Great Atlantic & Pacific Tea Company born, although the inclusion of the word "Pacific" did not occur until 1869, as the company grew and expanded.

Mr. Gilman retired in 1878, leaving Mr. Hartford to carry on alone until two of his sons, George L. and John A., were old enough to join him, the former in 1880 and the latter in 1888.<sup>6</sup> The administration of the Hartford family has become, over the years, symbolic of the far-flung operations of the now tremendously powerful Great Atlantic & Pacific Tea Company.

Other multiple food distribution stores soon followed in A & P's successful footsteps. Some of these were: Grand Union Company, originally Jones Brothers Tea Company, 1872, New York; Kroger Company, 1882, Cincinnati; the American Stores Company, 1886, Pennsylvania;

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<sup>5</sup>Nichols, op. cit., p. 57

<sup>6</sup>Godfrey M. Lebar, Chain Stores in America, 1859-1950. New York: Chain Store Publishing Corporation, 1952, p. 21.

H. C. Bohack Company, 1887, New York; Gristede Brothers, 1891, New York; First National Stores, 1895, Boston; National Tea Company, 1897, Chicago; Jewel Tea Company, 1889. Chicago; Henke and Pillot, 1872, Houston; Ralph's, 1873, Los Angeles; Daniel Grocer Company, 1882, Murphysboro, Illinois; and F. W. Albrecht Company, 1891,

Akron.<sup>7</sup> Although brief historical treatment was devoted to the A & P inception and growth, this was done only as the creation and development of this company constituted the historical foundation upon which modern food distribution is built.

### Anti-Chain Legislation

The history of retailing reveals that every innovation in distribution methods has been opposed by those fearful of its impact upon the existing order. The expansion and sales growth of the chain created great resentments and antagonisms. Whole communities were enlisted to fight the chains' invasion, and all manner of charges were leveled against them. As early as 1922, an organized effort to stop chain stores was put into motion when, at the Convention of the National Association of Retail Grocers at Los Angeles, it was openly suggested that the number of chain stores in any community should be limited by law. Although, between 1910 and 1920, the rapidity of their growth, coupled with the

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<sup>7</sup>From material supplied by the National Association of Food Chains, Washington, D. C., 1956.

widespread practice of price cutting made them the target for severe criticism from manufacturers, wholesalers, and independent retailers, no direct effort was made to check the food chains' progress before the bill suggested above -- which was not passed.

Once in motion the anti-chain movement developed rapidly, until in 1929 there were more than 400 cities and towns throughout the United States supporting active local organizations formed to combat the expansion of chain stores which at that time were considered a real menace. These contesting organizations were often considerably worse in their operations than the charges leveled against the chains. Investigations made by Better Business Bureaus proved that at least one-half of the receipts of anti-chain store organizations in 1929 ultimately found their way into the purses of organizers and their solicitors. First efforts were directed at manufacturers in attempts to force them to stop selling to chain organizations -- with little success. Next the consumer was approached through radio, the mails, and oratory to cease buying from the chain stores. Nevertheless, the chains, and especially the food chains, continued to grow.

Finally, the anti-chain organizations turned to local, state, and federal government, where they received political aid. Regardless of their motives, politicians, including some Congressmen, were drawn into the ever widening group of those opposed to the chain stores. Politically, powerful chain enemies used every conceivable method and

subterfuge to influence the various state legislatures to harrass with special taxation.

While numerous efforts were made to curb chain store growth through legislative methods from 1920 to 1930, the chains retaliated; however the pressure became so great that gradually states, cities, counties, and municipalities began to levy some form of punitive tax. As anti-chain agitation continued to grow in America, anti-chain measures introduced in twenty-four general assemblies in 1929 amounted to sixty-two, out of which only three became law. Still the flood of anti-chain legislation increased. From 1925 to 1932, 366 chain store tax bills with varying tax penalties were introduced in state legislature. Of these, 350 were killed and the remaining sixteen which became law either were declared unconstitutional or were superseded by new laws. In 1933, 225 discriminatory chain tax bills were introduced, of which thirteen became laws.<sup>8</sup> From 1934 to 1941, 500 more of such bills were introduced, of which thirty-two became law. Altogether, from 1923 to late 1953, sixty-one of these bills were enacted, although the majority of them superseded earlier enactments.<sup>9</sup>

Although the food chains fought back from the very inception of punitive tax legislation, it was not until the 1930s that the tide began

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<sup>8</sup>M. M. Zimmerman, The Super-Market--A Revolution in Food Distribution (New York, Toronto, London: McGraw-Hill Book Co., Inc., 1955), p. 5.

<sup>9</sup>Lebhar, op. cit., p. 130.

to turn in their favor. During the period the food chains launched an attack against anti-chain store tax proposals by presenting their case to the public. This action met with considerable success. Several of the discriminatory tax laws were declared unconstitutional, and in 1936 a California discriminatory tax was rejected by a referendum vote. From a situation where at one time twenty-nine states had discriminatory taxes against chains, various states have repealed these, until in late 1953 only fifteen state anti-chain store tax laws remained in effect. In 1958, 42 per cent of the grocery dollar volume in the United States was the corporate chains, which is fair proof that the beneficial effects of the chain store system are being recognized, and legislation against them is not anticipated.<sup>10</sup>

### Self-Service

The Founder. It may be well to consider the concept of merchandising developed by Clarence Saunders at this point. Self-service, isolated by itself, has been a basic contributing factor in the successful modern day operations of any form of food distributive organization.

The word self-service when mentioned in food distributive circles immediately brings to mind the name of Clarence Saunders, a

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<sup>10</sup>Figure derived from "Educated Guesstimates," published in The Voluntary and Cooperative Groups Magazine, October, 1960.

35-year old wholesale grocer and one of the most fabulous and colorful personalities in food distribution. He opened the first self-service food distributive store in Memphis, Tennessee, in 1919.<sup>11</sup> The store prospered, multiple stores soon were opened, thus forming a chain which became popular under the title of "Piggly-Wiggly." The operation was revolutionary in concept and radical in design, compared with the average retail food store of that period. Here was born the turnstile idea that was later used in countless supermarkets throughout the United States. This venture eventually gave self-service its greatest impetus, revolutionizing the food distributive industry.

Retailers of the time derided Saunders, arguing that customers would not shop in a self-service store, but Saunders convinced that he had an unquestionably sound idea opened his store. Saunders' idea was so successful that he decided to sell franchises to other operators. The self-service store, characterized by the new concept of the turnstile, won immediate popular approval. Operators in hundreds of cities and towns bought the franchises and opened Piggly-Wiggles. In four years Saunders had franchised 2,754 Piggly-Wiggly stores from coast to coast, with total sales volume well in excess of 180 million dollars.

In 1923, Wall Street 'bears' attempted to hammer down the

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<sup>11</sup>From information supplied by National Association of Food Chains, October, 1956.

price of Piggly-Wiggly stock; Saunders boarded a train for New York to deal personally with the attack. The story is told that Saunders carried a small handbag containing one million dollars in cash. Thus did Clarence Saunders emerge like a knight of old to do battle with the entrenched "bears" of Wall Street. On the first day he bought 30,000 shares of stock and continued to buy until he held orders for 196,000 of the corporation's 200,000 shares. However, in an unexpected move, the New York Stock Exchange declared that a "corner" on the market existed and gave the sellers five days rather than the usual twenty-four hours to deliver their stock. By the time Saunders received his stock, the price had fallen sharply and he was ruined. As a result of his financial disaster, he was soon forced out of the presidency of Piggly-Wiggly, and his voluntary petition in bankruptcy soon followed. The hundreds of Piggly-Wiggly stores that dotted the nation soon passed into other hands. Nevertheless, many Piggly-Wiggles are still operating today with considerable change in design of the store and merchandise carried.

Then, in keeping with his spectacular ideas of merchandising, Mr. Saunders launched a series of experimental robot stores from 1940 to 1948, which became known as the "Keedoozle Stores." Through complicated electrical and mechanical devices, merchandise was sold from glass-fronted display cases which contained a single sample item, without the aid of a clerk. The venture gained its unusual name because the customer carried a large "key" and turned it into the locks of desired

items. An automatic conveyor system tumbled the merchandise from stockroom shelves into a traveling belt, which carried it to the checker's counter, properly identified by the key number. Although Saunders envisioned a vast chain of Keedoozle Stores throughout the United States, this third venture failed, primarily due to the prohibitive cost of the intricate mechanisms involved.

Clarence Saunders' fourth and last food distributive venture was the "food-electric" which allowed the customer to do her own checking with a small key-type adding machine inserted into the display case containing the item she desired. It rang up the amount and released the merchandise, which she placed into her shopping cart. The first food-electric was scheduled to open during the latter part of 1953, but Clarence Saunders died on October 14, 1953. He is remembered for being an instrumental contributor to new ideas in food distribution and a pioneer in ingenious merchandising devices. Although there were and are other successful experimenters working in many parts of the country who contributed substantially to further development of food distribution, it is doubtful if any will ever equal the amazing genius and colorful personality of Clarence Saunders.

#### Effects of Self-Service.

Self-service in the food store was at first confined to dry groceries and staples. One large food chain experimented with



pre-packaged, self-service meats in 1939.<sup>12</sup> However, adequate packaging materials and self-service cases did not become available until after World War II. Early self-service stores handled only semi-perishable produce items, such as: apples, oranges and potatoes. As better equipment was devised, new methods for handling, shipping and displaying produce were developed. Self-service stores carried more and more items until today nearly all self-service food distributive outlets have self-service produce departments. Shoppers in the early stores of this type put their purchases in woven wooden baskets, as they progressed from shelf to shelf. Then some stores furnished shoppers with small rolling display tables to carry their purchases, and from these evolved the streamlined aluminum and steel basket carriers of today.

Self-service resulted in four basic improvements in food processing and retailing. Briefly, they follow:

1. "One price" merchandise, with the price marked on each item and the same price to all.
2. Standardization of quality and quantity.
3. Packaging in consumer-size units.
4. "Cash and carry" system, with its resultant savings in credit and delivery costs.

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<sup>12</sup>Although the author does not have actual confirmation of the following, he believes this to be the Grand Union Company. The author's father, Gordon Cook of Cook Publications, took him to see such an operation in a Grand Union retail outlet in New York, reputed to be one of the first of its kind.

Self-service, through its invitation to "impulse" purchases, has had an impact on the American food standard of living. Appeal of merchandise available to touch, sight, smell, and feel, increases sales and, as a result, food consumption. This broadens markets for farm products, and helps create additional jobs all along the line, from farmer to consumer. Larger sales, with corresponding high rate of turnover, also reduce costs and enable lower prices which, in turn, tend to increase food purchasing power, thus encouraging further expansion of food consumption. Consequently, the standard of living is raised. This application of the food chain principle of large volume, low profit, and fast turnover has contributed to a reduction in the cost of food distribution from an estimated 60 per cent in pre-self-service days to 18-1/2 per cent today.

Through the medium of self-service, the food distribution industry has expanded rapidly to meet the needs of America's growing population. As more and more self-service stores were opened, more and better food products were needed to fulfill customer demands. Food manufacturers and processors expanded to keep pace with the industry, and hundreds of thousands of new jobs were created in both the food processing and manufacturing industry, as well as in the food distribution industry. At first impression, self-service would seem to reduce the number of available jobs, because of the need for fewer clerks in a self-service store. But the exact opposite is true. There was need for

thousands of workers in new processing and packaging plants, in transportation firms, in warehouses and food distribution centers, and in the hundreds of new food stores and supermarkets themselves. Today over five million people are employed directly by the 44 billion dollar food industry, not to mention the hundreds of thousands in banks, insurance companies, advertising agencies, construction firms, and other businesses whose employment is augmented by the growth and success of the food industry.

With mass production and distribution came reduced costs and hundreds of new and different food products, consequently today, people are eating far more of these food products for considerably less cost per product. Americans are spending 25 per cent of their disposable income for foods, as against 23 per cent during the 1935-1939 period. If Americans still ate the same foods today that were eaten in 1935-1939, they would not be spending 23 per cent, but only 16 per cent of their disposable income on food due to decreased costs per food item. However, people are not satisfied with the foods of 1935. They are buying more meats, more fresh and frozen produce, new products, and many newly developed processed foods.<sup>13</sup>

### Super Markets.

Development and Description. The concept of self-service

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<sup>13</sup>From material supplied by the National Association of Food Chains, 1956.

and its successes led to the tremendous development of the modern super market. Along with self service this new development in food distribution, beginning in the early 1930s with independent food stores, was quickly adopted by food chains and extended rapidly. The depression period of these years gave great impetus to the development of self-service and to the building of larger markets with wider lines of merchandise, lower prices, free parking, a minimum of service features and larger volume.

The up-to-date description of a true super market is that it is a self-service food distributive retail outlet, handling complete lines, and doing a volume of \$500,000 or more per annum.<sup>14</sup> In the earlier days of super market development, smaller volume figures were necessarily quoted. Previous figures have placed the annual volume at \$375,000 and less as one looks back into super market history. Although the reader is probably familiar with the ever prevalent super market of today, it is hoped the above description will clarify the usage of the term "super market" in this thesis.

History. For this section, the author is indebted to his father, Gordon Cook,<sup>15</sup> who is one of the pioneers, one of the first editors to work closely with the super market field, and who is qualified to give his

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<sup>14</sup>Gordon Cook, Cook Publications, 1956, reconfirmed per phone 1961.

<sup>15</sup>Ibid.

views on the early days of super market development up to and including current practices.

The extremely early history of the super market is not clearly defined. In the early thirties and for some years thereafter, the above mentioned editor worked very closely with Mr. W. O. Rutherford, then Vice President of the B. F. Goodrich Rubber Company. During this period they were developing what was sometimes called "super service stations" or occasionally "super merchandising marts." In these new glorified gas stations were found miscellaneous items, sometimes totally unrelated to the rubber field. Infrequently the term "super market" was used in connection with these set-ups but they were not in the grocery field.

Mr. Cook first heard the term "super market" applied to the grocery field in the winter of 1927-1928. Prof. William E. Koch, a college instructor in business administration, an author of books on merchandising and also a free-lance writer, took him on a tour completely around Los Angeles, California. There they saw what were often referred to as "super drive-ins." During that Los Angeles tour, Prof. Koch frequently referred to these large markets as "super markets."

Also in 1930, Chain Store Age began to use the term "super-market" and carried illustrations of various super markets. From then on, practically all grocery trade journals used the term "super market."

The first actual service contact Cook Publications had with the

super market was in connection with the attempt by King Kullen to develop a Voluntary Group of super markets. King Kullen's correct name was Michael Cullen. He started the first super market in the East on Long Island in 1930. In 1931, King Kullen discussed with Mr. Cook the possibility of having a Voluntary Group of super markets throughout America, and Cook Publications started working with him on the development of a form of contact he wanted to make with other retail outlets willing to cooperate under his sponsorship. He said: "I want jobbers and retailers who want to join me in the establishing of super markets in all marketing centers of this country."

King Kullen's contract, under which he hoped to work out a Voluntary chain of super markets, was finally completed to his satisfaction in 1932. Late that same year, the King wanted a lead publicity story on his super market operation to be run in Mr. Cook's publication, which was then known as "The Voluntary Chain Magazine." The King wanted this story to be as crazy as possible. His advertising and his promotions were of the wild, crazy type and he wanted to continue the idea through this story. The story was written under the title, "Is King Kullen Nuts? Or is he Nuts?" under the pen name of Septimus Grant. The story, of course, was all about King Kullen's super market, and King Kullen's desire to establish a national Voluntary chain of super markets. The story was published in May, 1933, issue of The Voluntary Chain Magazine. In connection with the story, King Kullen's contract was

published, through which he hoped to induce others to join him.

Then in 1932, the Great Bear Super Market in New Jersey was opened. That market was located in the old Durant Motors Building. It had rough pine board fixtures, and great masses of groceries and other merchandise.

This aroused retail grocers of every description in New Jersey. They sought to hamper the development of super markets in that state in every way they could conceive. The history of retailing reveals that every innovation methods has been opposed by those fearful of its impact on the existing order. The attack on super markets was equally as extensive, intensive, and intended to be as punitive as the attacks on chain stores in general.

In the winter of 1932 and 1933, there was a great mass meeting of independent retailers and some chain operators at the Soldiers' Memorial Hall in Trenton, New Jersey. There must have been between 1,000 and 2,000 grocers at that great mass meeting. The purpose of the meeting was to protest against the so-called super markets, and to develop ways and means to stop the progress of this alleged menace.

Among those who addressed the meeting were the secretary of the New Jersey Retail Grocers' Association, the Mayor of the city of Trenton, various state and local officials, politicians, and so forth. Mr. Cook was the only speaker in their large auditorium defending the super markets. He took as the theme of his talk the words of Pontius

Pilate: "Why?" "What evil hath he done? The entire talk, which was reported in print, was a defense of the super markets. In April of 1933 issue of The Voluntary Chain Magazine, an article was written under our own name, entitled: "The Super Market Menace," which was a defense of the super markets and a partial recap of the speech at Trenton supporting the super markets.

About 1933, William H. Albers opened the first super market in the Albers chain of super markets, and coincidental to this event things in the super market field from then on moved with considerable rapidity.

In 1936, Mr. Cook spoke in most of the European countries concerning grocery distribution in this country and always discussed the super market development. He saw nothing wrong with the super market development in 1930, 1931, 1932, 1933, 1934, 1935 and 1936-- a period when these markets were under constant attack by all other forms of grocery distribution.. There may have been other grocery trade journal editors in 1932 defending the super market field, but they were not in evidence. Certainly during the first six or seven years after the opening of King Kullen's Super Market, no other trade journal editor was writing and speaking in defense of the super markets, and working with them to help develop them on as broad a scale as possible.

Defending super markets in the early 1930s was decidedly



an unpopular task. All kinds of pressure was used to handicap the super market development in those years. Manufacturers who sold the super markets in those days found disfavor with other grocery distributors. Newspapers refused to run the advertising of super markets. Special zoning ordinances were passed for the purpose of barring super markets from certain areas. Building inspectors and safety directors found reasons why super markets could not operate freely--a necessary condition if they were to stay in business.<sup>16</sup>

Despite the various handicaps designed expressly to eliminate the super market, it was destined to succeed for it fulfilled consumer wants and needs. Basically, these consumers were to be supplied the best possible products at the lowest possible costs. All arguments notwithstanding, Mrs. Consumer enjoyed using the super market, and proved it with her continued patronage that was so necessary for its dramatic success over its adversaries. No retailing institution can long continue to operate successfully unless it does satisfy human wants and needs. This is basic economics. The super market having done this with ever increasing skill, it is not very surprising that it enjoys the position of eminence and importance it holds in the modern food distribution picture.

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<sup>16</sup>Gordon Cook, "Editorial," The Voluntary and Cooperative Groups Magazine, March, 1955.

### Present Chain Status

Even to the most casual observer, it is plainly evident that the food distributive chain today is a very much favored form of organization in food distribution. Since the late 1920s, when it was often claimed that the grocery chains had approximately 60,000 retail outlets and the Great Atlantic & Pacific Tea Company, had some 16,000 outlets, there has been considerable change.

The corporate chains now, based on the definition of ten or more stores constituting a corporate chain, have a total of approximately 18,670 stores. (See Table 1) The fact that approximately 40,000 chain retail food outlets have been closed is a tribute to the progress in the chain field, because while a chain was closing five or ten outlets in the "Mom" and "Pop" category, it was opening a store that did more volume than the combined volume of the five or ten that were closed. The A. C. Nielsen Company of Chicago, one of the most highly respected research organizations in the country, estimates, utilizing the ten stores definition, that the food chains today do about 36% of the total food distribution volume as opposed to about 22% in the 1920s. Since 1913, the percentage of total retail food distributive outlets business has remained relatively stable. This is due in major part, to the development of voluntary and cooperative groups and to a lesser extent, to improvement in services rendered by the wholesaler unaffiliated independent retailer system.

TABLE I.

# State Tabulation of Corporate Chains

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	Number of Corporate Chains With More Than 10 Stores	Number of Outlets
Alabama .....	4	91
Arizona .....	1	29
Arkansas .....		
California .....	27	2,960
Colorado .....	1	14
Connecticut .....	2	57
Delaware .....		
District of Columbia .....	2	62
Florida .....	3	553
Georgia .....	7	782
Idaho .....	1	48
Illinois .....	15	1,486
Indiana .....	2	80
Iowa .....	5	139
Kansas .....	7	147
Kentucky .....	1	23
Louisiana .....	1	36
Maine .....	1	20
Maryland .....	1	18
Massachusetts .....	6	745
Michigan .....	4	104
Minnesota .....	5	219
Mississippi .....	1	18
Missouri .....	2	39
Montana .....	2	37
Nebraska .....	2	52
Nevada .....		
New Hampshire .....		
New Jersey .....	2	453
New Mexico .....	2	44
New York .....	24	5,498
North Carolina .....	2	27
North Dakota .....		
Ohio .....	13	1,763
Oklahoma .....	4	232
Oregon .....	3	60
Pennsylvania .....	10	1,440
Rhode Island .....	1	20
South Carolina .....	3	97
South Dakota .....	1	11
Tennessee .....	6	162
Texas .....	20	946
Utah .....		
Vermont .....		
Virginia .....	1	20
Washington .....	2	56
West Virginia .....	3	56
Wisconsin .....	2	26
Wyoming .....		
Totals .....	202	18,670

*Editor's Note:* There are chain store outlets in every state, but inasmuch as there are no chains maintaining headquarters within some of the states, there are no figures to show for either number of chains or number of outlets.

We are now assembling information on the number of Groups and the number of corporate chains operated in our two newest states, Alaska and Hawaii. In the future this information will, of course, be included in these tabulations.

Increasing numbers of large volume super markets fully self-service mark the progress in the food chain field. Out of 10,000 true super markets in the country, about one-half of these are in the chain field. Also important are the sub-super markets or large volume markets below \$500,000 but about \$250,000 per annum, of which approximately 30,000 may be accredited. The chains have about 10,000 of these sub-super markets, and about 6,000 small and medium size food distributive outlets.<sup>18</sup>

From uncertain beginnings, the food chains today are well knit together through their industry organization, the National Association of Food Chains in Washington, D. C. Besides the National Association of Food Chains annual meetings, which are considered one of the most important annual gatherings in the food industry; it has been the vehicle whereby food chains for twenty-three years have conducted a multi-purpose series of public service projects. These projects have and do assist farmers in disposing of super abundant crops, encourage local citizenship activities by super market and food store managers, have created undergraduate and graduate courses of food distribution at Michigan State University, attended by the author. Moreover, the Association has taken the lead in international economic cooperation by assisting foreign food distributors.<sup>19</sup>

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<sup>18</sup>

Ibid.

<sup>19</sup>

Jean Osgood, Public Relations Director, National Association of Food Chains, October, 1956.

Since some 5,000 of a total of 10,000 true super markets are in the chain field, the Super Market Institute has also done much through its annual meetings and services to its members to promote the continued growth of food chains, the super markets within them, and self-service within the super markets.<sup>20</sup>

Reasons for the success of the chain food stores were recently investigated by the National Association of Food Chains. Factors stressed by homemakers were lower prices; wide variety; convenient location; courteous service; fresh, dependable merchandise; and cleanliness. For the 1958 retail volume figures of 23 Corporate Chains, turn to page 47, Table 11.

Lower cost food distribution through chain stores has not only contributed to an improved standard of living but has made possible an expansion of food production with far-reaching effects. Now products can be introduced much more rapidly with food chain advertising support based on the industry's expenditure of an estimated \$150 million a year in newspaper, radio, and television promotions. The impact of display in hundreds or even thousands of outlets at a time gives worthy new products a fast start toward consumer acceptance. Vast increase in use of refrigeration has extended the market for perishable products and made seasonable items available, in some cases, the year around.<sup>21</sup>

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<sup>20</sup> Catherine Mc Andrews, Information Service Manager, Super Market Institute, Inc., Chicago, Ill., October, 1956.

<sup>21</sup> John A. Logan, President, National Association of Food Chains, Washington, D. C., October 1956.

TABLE II.

# 1958 Retail Volume of 23 Corporate Chains<sup>22</sup>

A&P Tea Company, New York, New York	\$4,800,000,000 <sup>1</sup>
Safeway Stores, Inc., Oakland, California	2,225,352,461
Kroger Company, Cincinnati, Ohio	1,776,030,000
American Stores Company, Philadelphia, Pa.	865,564,000
National Tea Company, Chicago, Illinois	794,162,135 <sup>1</sup>
Winn-Dixie Stores, Inc., Jacksonville, Florida	630,872,000
Food Fair Stores, Inc., Philadelphia, Pa.	601,000,000 <sup>5</sup>
First National Stores, Inc., Somerville, Mass.	521,000,000 <sup>4</sup>
Grand Union Company, East Paterson, N. J.	503,740,308 <sup>2</sup>
Jewel Tea Company, Inc., Melrose Park, Illinois	443,813,000 <sup>1</sup>
Colonial Stores, Inc., Atlanta, Georgia	437,144,000
ACF-Wrigley Stores, Inc., Oklahoma City, Okla.	347,515,582 <sup>2</sup>
Loblaws, Incorporated, Buffalo, New York	261,000,000 <sup>3</sup>
Red Owl Stores, Inc., Minneapolis, Minn.	176,000,000 <sup>3</sup>
H. C. Bohack Company, Inc., Brooklyn, N. Y.	163,085,744 <sup>2</sup>
Penn Fruit Company, Inc., Philadelphia, Pa.	162,000,000 <sup>7</sup>
Stop and Shop, Inc., Boston, Massachusetts	152,350,084 <sup>6</sup>
Lucky Stores, Inc., San Leandro, California	141,512,741
J. Weingarten, Inc., Houston, Texas	124,000,000 <sup>6</sup>
Thorofare Markets, Pittsburgh, Pa.	109,164,437 <sup>1</sup>
Fisher Brothers Company, Cleveland, Ohio	102,178,195 <sup>1</sup>
Purity Stores, Limited, Burlingame, Calif.	100,443,891 <sup>1</sup>
The Market Basket, Los Angeles, Calif.	92,537,603 <sup>1</sup>

<sup>1</sup>53 weeks ending January 3, 1959.<sup>2</sup>Year ending February 28, 1959.<sup>3</sup>Year ending February 1958.<sup>4</sup>Year ending March 1958.<sup>5</sup>Year ending April 1958.<sup>6</sup>Year ending June 1958.<sup>7</sup>Year ending August 1958.

A&amp;P sales for 1958 fiscal year estimated at approximately \$5,000,000,000.

<sup>22</sup> The Voluntary and Cooperative Groups Magazine, 1958.

## CHAPTER IV.

### VOLUNTARY AND COOPERATIVE GROUPS

#### Stage Setting

In the previous chapter, the historical development of the food chains was outlined, including the tremendous amount of anti-chain sentiment and legislation created as a result of this innovation in food distribution.

Among those most militant in condemning the very successful chain system were the independent food distributors and wholesalers who foresaw, in the efficiency of the food chain, the threat of inroads into their volume of business if they could not in some manner overcome this "menace."

The rank and file of the smaller independents were enthusiastic about the use of legislation as an anti-chain weapon, and many believed that this was the solution to their problem. Voices were raised, however, which questioned the logic of attempting to legislate the chains out of existence instead of adopting their more efficient merchandising methods. This farsightedness, coupled with the pressure of chain competition and the haunting fear that they would be forced out of business by this organized form of retailing, has been the driving force behind the formation of the Voluntary and Cooperative groups.

The grouping of retail stores under a single ownership and management in the chain system, naturally, forced independent wholesalers

and retailers toward using similar methods of procedure.

However, the tradition of individual ownership of retail stores is deeply entrenched in American life. Therefore, a way was sought to preserve this individual ownership and still bring to independents, through banding together, in Voluntary and Cooperative groups, efficiency equal to or surpassing that which the regular chains were able to accomplish by force of single ownership. Further evolution toward Voluntary and Cooperative group action was instigated by Corporate chains. Under the intense pressure of anti-chain legislation -- which the independents were instrumental in combatting corporate chains joined the independents in going to a Voluntary or Cooperative group set up. This trend continues today, as will be discussed later.

Competition within the food distributing industry has steadily driven the various forms of organizations within it to adopt similar methods. Voluntary groups compete with Cooperative groups to secure the membership of the really effective independent retailers. This has forced them toward using similar methods in practically the same way. Both compete with the Corporate chains. This in turn has forced both types of groups toward shaping their organization methods and the stores of their members to coincide with what the Corporate chains were doing. Consequently, much that has been written in the previous chapter on "Corporate Chains" is applicable to the Voluntary and Cooperative groups.

Although the operations of the successful Chains, Voluntaries,



and Cooperatives were very similar from the beginning, their organization of course was not. This can be observed in a review and enlargement upon definitions as expressed in the introductory chapter of this work.

A Cooperative group is a form of business enterprise owned and controlled on a mutual and equitable basis by retail grocer stockholders who patronize the business and participate in any savings in proportion to their patronage. These organizations are sometimes referred to as "retailer-owned groups." Usually they build or lease a warehouse and hire a manager to operate it. They purchase together and sell together just as Voluntary groups do.

A Voluntary Group is an association of independent retail grocers, under the supervision of a wholesale grocer who renders merchandising, engineering, accounting, and other services, and from whom they purchase supplies. The wholesale grocer functions as the sponsoring headquarters. These organizations are sometimes referred to as "jobber sponsored groups."<sup>1</sup>

## Organization Histories

### Genesis of the Cooperatives

The history of the Voluntary and Cooperative Groups movement is relatively modern in comparison to the other types of food distributive organizations discussed in this work. All of their development has taken

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<sup>1</sup> Gordon Cook, Voluntary and Cooperative Groups Magazine, October, 1955, reaffirmed by telephone in 1961.

place within the last seventy-five years. That Chains, Voluntary and Co-operative group enterprises today normally can undersell the singly-operated store is generally acknowledged. Indeed, that is the chief basis for hostility toward Chains, Voluntary and Cooperative groups by many of those operating their own unaffiliated businesses. It required the constant prodding of the Chains, though, in most instances, to effect the organization and growth of the groups. Hubert T. Parson, deceased, former President of the F. W. Woolworth Company said,

The superior merchandising of the Chains has done more to put the independents 'on their toes' and to increase their value to the public than anything they have ever done of their initiative.<sup>2</sup>

Although it is generally agreed that the Voluntary and Cooperative groups had their first beginning in the 1920's, the Cooperative movement among Independent retail grocers in the United States had its first real impetus in 1888. The early cooperative efforts of these pioneers consisted simply in buying and warehousing as a group, in order that they might purchase merchandise directly from the manufacturer, and thus save for themselves at least some portion of the charges formerly paid to the wholesaler for his services as middleman. To these functions of buying and warehousing were added, in 1930, delivery service, advertising and the use of various improved merchandising plans.

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<sup>2</sup> Address by Gordon Cook at the 12th Boston Conference on Distribution, 1940, "Development and Future of Voluntary and Cooperative groups system in Food Distribution."

The first authentic retailer-owned or Cooperative group was chartered in 1888 and was known as the Frankford Grocery Company, Inc., of Philadelphia, Pennsylvania. A charter had been granted two years previously for a buying cooperative, in December 1886, to the Retail Grocers Association of Philadelphia.<sup>3</sup> Actually, this organization was precisely as it states in its title, "a grocers' association," therefore, the Frankford Grocery Company was the first retailer-owned or Cooperative group per se.

When Gus Edgar became President of the Frankford Grocery Company in 1891, the organization began to develop in earnest. The task was not easy, and as the company progressed Mr. Edgar often discussed with Mr. Gordon Cook some of his problems. One of these was that Mr. Edgar met with considerable opposition as to methods of operation from the retail grocers who owned the Frankford organization. It was suggested by Mr. Cook that Mr. Edgar lay down specific rules, and operate the business strictly by these rules. Any retailer who would not abide by these regulations was to be summarily dismissed. Mr. Edgar approved of this suggestion and put it into practice. Today this practice of one or only several key men formulating strictly adhered to operating rules is a basic tenet that all good Voluntary and Cooperative groups follow for the efficient running of their businesses.

In 1935, Frankford Grocery Company merged with Unity Stores, and operate as Unity-Frankford Stores. The company presently functions

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<sup>3</sup> William J. Gillespie, General Manager and Secretary, Quaker City Wholesale Grocery Co., Philadelphia, Pa. Correspondence dated August 16, 1956.

from a recently constructed one-story, streamlined warehouse, and is the most influential independent organization in Philadelphia today.

Closely paralleling the Frankford Grocery Company history is that of the Quaker City Wholesale Grocery Company, also of Philadelphia. The Retail Grocers Association of Philadelphia, previously mentioned as founded in 1886, at a later date turned its carload and group-buying facilities over to the Girard Grocery Company. The latter company was formed by a group of men who had withdrawn from the Frankford Grocery Company. This Girard Grocery Company operated from its original founding date, which apparently was not recorded, to the time of its failure on June 26, 1926.<sup>4</sup>

The Retail Grocers Association never failed; it is operating today. In fact, its present 1,000 members are issued Certificates of Membership and are likewise required to become stockholders of the new buying corporation, Quaker City Wholesale Grocery Company. This organization was chartered on December 10, 1926, and began operating on January 3, 1927.<sup>5</sup> As its history was similar to that of the Frankford Grocery Company, it ranks closely behind that company today in importance in the Philadelphia area.

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<sup>4</sup> Wilford L. White, D.C.S. Cooperative Retail Buying Associations. New York: McGraw-Hill Book Co., Inc., 1930, p. 14.

<sup>5</sup> William J. Gillespie - Interview.

### Genesis of the Voluntaries.

Development of the Voluntary groups dates to the early 1920's, with the formation of the Red & White Stores Corporation by S. M. Flickinger Co., Inc., of Buffalo, New York, in 1921. This is generally considered to be the first Voluntary group enterprise. Again, Mr. Gordon Cook was instrumental in the development of this group, also in other succeeding Voluntary groups.

Mr. Gordon Cook first met Smith M. Flickinger, President of the S. M. Flickinger Co., Inc., during a business conference in Western New York, at which tentative suggestions were being discussed for an arrangement whereby railroad workers in Western New York would be able to procure groceries at substantial savings. Mr. Flickinger saw no way in which savings of any size could be worked out for these railroaders. There was considerable talk about a Consumer Cooperative, patterned after those in Europe, but nothing materialized.

Mr. Flickinger and Mr. Cook discussed retailer-wholesaler cooperation at different times, and Mr. Cook was familiar with the Frankford Grocery Company, Incorporated, a retailer-owner setup in Philadelphia, Penna. He had discussed with Gus Edgar, President of Frankford, the possibility of wholesalers and retailers working together. The more Mr. Cook talked to Mr. Flickinger about the Frankford operation, the more it became apparent to him that cooperation between a wholesaler and a group of retailers was entirely feasible.

Following these conclusions, Mr. Flickinger founded the Red and White Stores Corporation, as has been previously stated.

These stores were organized along the lines of Mr. Flickinger and Mr. Cook's discussion. Mr. Flickinger lived to see the Red and White operation grow into thirty-four states, with over 5,000 stores, grossing over one and one-half billion dollars in sales. Recently Red and White initiated a five-year program of opening 1,000 stores, which will qualify as true Super Markets. It can be said that Mr. Flickinger made one of the great contributions toward restoring the initiative of the independent through the Voluntary type of food distributive operation.

### Further Growth

#### Large and Small

About 1923, Certified Grocers of California, Limited, was organized, and during 1926 or 1927, Clayton Whiteman became the general manager of Certified and from then until Mr. Whiteman's health broke down, some twenty-five years ago, Mr. Gordon Cook maintained close contact with him on this development.

When George Green, of Green-Babcox, wholesale grocers of Cleveland, Ohio, wanted to start a Voluntary Group sometime in 1926, he looked to Gordon Cook for guidance. Together they formed Clover Farm Stores Corporation.

In the meantime, Lewis C. Shave of Nation-Wide Stores Co. approached Mr. Gordon Cook with the request that he obtain a few addi-

tional wholesalers. This he accomplished -- the most important of this group was Smith & Horton Company, of Warren, Pennsylvania.

About this time, a group of private label packers contacted Gordon Cook for the specific purpose of forming a Voluntary Group, in order that they could control distribution of their products. Their confidence in Mr. Cook's ability to perform such a venture was evidenced by their actually placing the capital investment on his desk. As a result, the Fairlawn Stores were organized.

Mr. D. E. Matthews, of Lewis-Hubbard and Company, Charlestown, West Virginia, along with some other wholesalers sought Gordon Cook's counsel and advice concerning a reorganization of the Independent Grocers Alliance. This took place in 1941. Mr. Frank Grimes, President of International Grocers Association, was apprised of the discontent that prevailed among the members. Proper measures were effected and harmony prevailed.

One day Mr. F. E. Dowler, of Athens, Ohio, called upon Gordon Cook for assistance in organizing a Voluntary group. Mr. Dowler's need was immediate since he wanted to get either a salt or match deal settled. National Brand Stores were formed, and Alfred M. Lewis, of Riverdale, California, joined this group and was instrumental in securing quite a number of wholesalers for this group.

In the late 1920's the National Retailer-Owned Grocers, Incorporated, was formed. Gordon Cook helped to place a number of

retailer-owned warehouses for this group and counselled them on many phases of their operations.

This thesis has concerned itself principally about national groups or very large groups. In 1940, Gordon Cook attracted the attention of Tom Harrison, President of Winston & Newell Company, sponsors of Super Valu Stores, of Minneapolis, Minnesota, and other points. He added a good many ideas of his own to Mr. Cook's suggestions. The result was that organization grew from a volume of approximately \$6 million in 1940 to a volume of approximately \$60 million in 1950. The National-American Wholesale Grocers Association presented a plaque to the Winston & Newell organization in recognition of this phenomenal progress, and for being the best operated Voluntary group in America.

In 1949, Joe Foy, whose experience had been as a retail grocer, was made manager of the Grand Rapids Wholesale Grocery Company, of Grand Rapids, Michigan. This is a retailer-owned operation. Mr. Cook and his associates had been counselling Mr. Foy concerning his policies for approximately eight years. Strengthened by this guidance and his own conviction, Mr. Foy proceeded to build the best operated retailer-owned grocery distributive organization in America. It is not as large as Certified or Frankford, but his operating costs can be compared with either one, and when certain peculiarities of the operations of these bigger organizations are taken into consideration, Foy's operating structure is almost certain to excel, from an operating expense angle.



While all of these developments were in process other events kept pace. Many unaffiliated independent Voluntary groups and Cooperatives Groups have been set up by Mr. Cook and his organization. For the most part, all are progressing steadily.

Since the name of Gordon Cook has appeared quite often in this chapter, a word of explanation follows. Gordon Cook was, and is, a pioneer and leader particularly in the development of the Voluntary and Cooperative groups field. As an internationally recognized authority and dean in food distribution, his advice is often sought by all segments of food distribution and manufacturing. Finally, he is the editor and publisher of two national trade publications in the food field, i.e., The Voluntary and Cooperative Groups Magazine, and Super Market Manager. He is moreover, Director of Operation, Incorporated, an international research, engineering, operating and merchandising organization with limited membership. With such a first-hand source, the author has relied upon it almost solely for certain sections in this chapter on the Voluntary and Cooperative group, especially in view of the sometimes confusing, contradictory, or incomplete information to be elicited from other sources.

### Basic Tenets

Previously it has been mentioned that competition has made operations within the various segments of food distribution similar, even though the segments themselves are different in organization. Although the basic operations of a food chain are usually understood by the food

distribution student, the basic tenets of operation of the Voluntary and Co-operative groups are not too well known. Since upon adherence to these basic tenets the Voluntary and Cooperative groups have made their contributions to the historical development of food distribution, the author feels it to be appropriate at this point to list these tenets. The listing is as follows:

1. The Voluntary group sponsor or wholesale grocer buys for his warehouse. Such a sponsor usually has accounts other than those belonging to his Voluntary group. The best operated groups have a pre-printed order form, which is issued to retail members of the group. The retail members check on the order form what they want from the warehouse. In the case of the Voluntary group, the retailers buy from the warehouse, and this is on different bases. Sometimes the buying is done on a mark-up percentage and sometimes it is done on a cost-plus basis. These are the most general methods. In the case of the Cooperatives, the retailers most frequently own or lease their warehouses. They hire a manager. So, in effect they are buying from themselves.

2. Some groups do not use a pre-printed order form. Retail members of groups who are supplied with an order form from time to time may telephone orders or send them to the warehouse by some other method.

3. The sponsor offers to its retail members a record-keeping service.

4. The retail prices suggested are comparable to those of leading Chain competition. It is entirely up to the retailer whether or not to adopt the suggested selling prices.

5. The retailers are advised as to velocity of turnover on all products.

6. The sponsor aids the member retailers in securing financial assistance for the expansion of present markets or opening of new ones.

7. The more aggressive and larger sponsors handle some or all perishables. These commodities may also be obtained from the sponsor on the same basis as other food items.

8. Retailers usually pay a weekly service fee, based on their respective volumes. These fees vary according to whatever services they use.

9. Retailers make payment to the sponsor in several different ways. They may send their signed blank checks with their orders or keep a sheath of signed checks in the hands of the sponsor, maintain a deposit, or remit payment with each individual order.

10. The theme of the whole operation is on selling together, promoting together, and merchandising together.

11. The sponsor operates training schools for the personnel of its retailers; for their meat men, their produce men, and others. This is an optional service which the retailer may or may not take advantage of.

12. The sponsoring warehouse cases to be in the business of selling merchandise to retailers. It bills the retailers for merchandise at the warehouse cost, plus a service charge. The warehouse is in the

business of selling services to the retailer -- services that move the merchandise off the shelves.<sup>6</sup>

### Corporate Chains to Voluntary Groups

As has been mentioned, Voluntary and Cooperative group action has been taken not only by Independent food distributors, but also by Corporate Chains who under the pressure of anti-chain legislation, taxation, and so forth, joined the Independents in going to a Voluntary or Cooperative group set-up. Some of them sold their retail stores to individuals, retained the central facilities and a well organized service with good control over methods and the retail members. This is not just a recent development but occurred in the formation of the Red and White Stores by S. M. Flickinger. Late in 1934 S. M. Flickinger, Incorporated, began systematically selling its wholly or partially owned retail stores to the managers. These released stores were to be combined with Flickinger's Red and White Voluntary retailers under a compromise plan which relaxed the detailed control used by a corporate chain, while tightening the supervision and other functions.

Late in 1935, the Flickinger theory began to enter the minds of men managing Corporate Chains. Prohibitively high taxes were becoming more numerous and Mr. Patman's committee was heading a na-

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<sup>6</sup> Harrison, T. C. "Why We Operate Independent Voluntary Groups," The Voluntary and Cooperative Groups Magazine, December, 1949, p. 19.

tional agitation which threatened anti-chain legislation in Washington and higher chain taxes by states and municipalities. Intensive competition from Independents added to the Corporate Chain burdens. This was all revealed when John A. Hartford, President of the Great Atlantic & Pacific Tea Company, announced in January, 1936, that this dominant Corporate Chain was seriously considering Voluntary group methods in Iowa, Florida, and other states where high taxes handicapped the ownership of retail stores.<sup>7</sup>

From those days to the present, most corporate chains have studied and seriously considered the idea of changeover to the Voluntary group idea. Some have made the switch over the years, some are now in the process of changing over, and others have plans to do the same. This may come as somewhat of a surprise to those who have always felt the Chain's position to be most advantageous in food distribution that this has not only been a continuous process from the early 1920's, but is in effect today and it looks like there will be more of this type of change from the Corporate form to the Voluntary form.<sup>8</sup>

It seems that the Corporate form of organization is not as flexible and as free from handicaps as is the operating form of the Voluntary and Cooperative groups. The Chains have equally good management and frequently better, but generally realized lower profits than Voluntary or Cooperative groups, even though it is sometimes very difficult to compare

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<sup>7</sup> Gordon C. Corbaley, Group Selling by 100,000 Retailers, American Institute of Food Distribution, Inc., New York, 1936.

<sup>8</sup> Gordon Cook, Cook Publications, New York. Personal conference.

these profits. The grocery Chains report at the retail level, and this includes warehouse expense. The Voluntary Groups, in general, report only at the warehouse level, but from time to time the wholesale sponsor of a Voluntary group will estimate the combined warehouse and retail profit in an effort to compare with the Chains. A few wholesale sponsors, such as Super Valu, have made figures covering the combined operations, but this has to be done under a formula. Such figures were made in connection with securing financial backing, but after all they are still not absolutely accurate. The Chains have, as a rule, higher expense for a number of reasons, such as:

Exceptionally high salaries of certain men at the headquarter offices.

Wages are frequently higher in the chain field because that field is more unionized than the Voluntary and Cooperative groups field.

In general, in the chain field management at the retail level is handled by an employee; while in the Voluntary and Cooperative groups field management at the retail level is generally handled by the owner of the retail outlet.

Salaries at the headquarters offices in the Voluntary and Cooperative groups field are generally substantially lower than those in the chain field.

Generally in the Voluntary and Cooperative groups field those financially interested in the warehouse are closer to the warehouse operation than are the owners of a grocery chain. As mentioned above, the retailer-owned or Cooperative groups as a rule do not function with a profit motive so far as the warehouse is concerned.

The national and regional Voluntary Groups have certain inherent advantages to offer the alert, progressive, volume-minded wholesalers and retailers. These fall into five broad headings:

1. Controlled Brands
2. Reliable Quality, Low-Cost Sources of Supply
3. Trained Sales Supervisors and Expert Store Engineers
4. Nationally known Store Identification; and
5. Coordinated Low-Cost Advertising and Planned Weekly and Monthly Sales Programs

#### Controlled Brands:

Red and White Stores Corporation recognized years ago that a strong controlled brand program was essential to success, embodying the following principles:

- a. Quality -- The top brand should be fancy grade, equal to or better than the most popular manufacturers' brands.
- b. Good Package Design -- The label designs and colors employed should be the best that modern package designers and lithographers can produce, to overcome sales resistance and create buyer's preference for the brand on the grocers' shelves.

Controlled brands are made possible through the combined purchasing power of a Voluntary group. The combined buying power makes the maintenance of strong controlled brands possible.

#### Reliable Quality, Low-Cost Sources of Supply:

Voluntary groups command prestige with manufacturers, canners and other suppliers who process and pack foods of consistent

high quality, thus providing quality packs for distribution through the Voluntary group.

At the wholesale level, modern one-floor warehousing, pre-printed order forms and the substitution of sales supervisors for salesmen bring the cost of distribution to the bare minimum, thus providing the retailer with a low-cost source of supply.

#### Trained Sales Supervisors and Expert Store Engineers:

A staff of trained sales supervisors can provide the membership with the latest ideas on store operation, engineering and merchandising practices culled from the experience of hundreds of sales supervisors. This is an intrinsic value which cannot be measured in dollars and cents. It keeps the organizations alert to changes or innovations in retailing, regardless of where the change may occur.

#### Nationally known Store Identification:

The store insignia or symbol of a Voluntary group displayed by stores within the group adds prestige to the store, confidence to the thousands of families who move or travel from one community to another; that is, a familiar store in which to shop.

#### Coordinated Low-Cost Advertising and Planned Weekly and Monthly Sales Programs:

A Voluntary group can utilize the talents of expert advertising and selling personnel and coordinate these findings in weekly or monthly campaigns to move tonnage on a wide scale. Campaigns such as a canned goods sale, a canning needs program, or cooperative advertising and



other sales programs tying in with the industry-wide campaigns to move surplus or distressed crops are possible in a greater volume through a national group than through a sectional or local group organization.

Some of the advantages the Voluntary and Cooperative groups enjoy have already been outlined in the discussion as to why grocery chains realize lower profits than Voluntary and Cooperative groups on page 62 of this chapter. Briefly, other advantages are as follows:

1. Freedom from high overhead in connection with expensive control headquarters organizations.
2. This is primarily the result of each store being individually and independently owned. The owner naturally takes a greater personal interest in his own store and exerts the same from his store personnel.
3. A very decided tax advantage.
4. Greater freedom from union problems and other labor troubles.
5. Frequently a lower labor cost.
6. Freedom from such unfair legislation, especially aimed at Chains.
7. It seems the government tends to investigate any centrally owned organization within or without the food field.
8. Less unrealistic government interference to which the Chains are often subjected.

A Voluntary or Cooperative group may have as much of a major influence within the food field as a comparably sized Chain which is under government scrutiny; however, since the stores within the

Voluntary or Cooperative group are independently owned, these groups do not draw governmental surveillance to the same degree as Chains with their central ownership.

### Voluntary and Cooperative Groups Status

Back in the late 1920's, the Voluntary groups and Cooperative groups claimed a total of 130,000 retail outlets. About half of those retail outlets were in the "mamma-and-papa" class and, of course, gasoline stations and front parlors in homes were included in this number.

It was often claimed in those days that there were 1,000 Voluntary and Cooperative groups. The claims as to the number of retailers and the number of groups were highly optimistic. For instance, Abe Krasne, in New York, claimed a membership in his Voluntary of 7,000 retail outlets.

There was at that time, in the Voluntary and Cooperative groups field, a substantial percentage of organizations that were merely expedients and gestures, set up for the purpose of potential gain.

About this time the Chains realized that a large number of stores actually earned less profit than a smaller number of very large stores; the Voluntaries and Cooperatives recognized this fact.

The number of group sponsors in the Voluntary and Cooperative groups field steadily declined. In 1958, there were approximately 835 Voluntary and Cooperative groups with 90,000 or more outlets, as shown in Table III, page 68.

TABLE III.

State Tabulation of Voluntary and Cooperative Groups<sup>9</sup>

State	VOLUNTARY (Wholesale-Sponsored) GROUPS		COOPERATIVE (Retailer-Owned) GROUPS		TOTAL	
	Groups	Retailers	Groups	Retailers	Groups	Retailers
Alabama	12	218	3	103	15	321
Arizona	...	...	2	850	2	850
Arkansas	6	171	2	66	8	237
California	7	1,962	11	6,835	18	8,797
Colorado	3	151	2	520	5	671
Connecticut	10	1,144	6	466	16	1,610
Delaware	2	110	...	...	2	110
District of Columbia	2	151	2	261	4	412
Florida	6	199	9	625	15	824
Georgia	16	411	3	655	19	1,066
Idaho	1	25	3	200	4	225
Illinois	43	6,000	12	3,053	55	9,053
Indiana	13	1,698	2	201	15	1,899
Iowa	15	1,482	1	225	16	1,707
Kansas	7	690	3	864	10	1,554
Kentucky	8	537	1	66	9	603
Louisiana	13	628	4	421	17	1,049
Maine	11	802	2	551	13	1,353
Maryland	7	754	3	575	10	1,329
Massachusetts	29	3,058	9	734	38	3,792
Michigan	20	3,097	9	1,119	29	4,216
Minnesota	18	2,006	4	1,039	22	3,045
Mississippi	12	370	...	...	12	370
Missouri	17	1,720	5	917	22	2,637
Montana	9	325	2	146	11	471
Nebraska	6	583	3	463	9	1,046
Nevada	...	...	...	...	...	...
New Hampshire	6	700	1	300	7	1,000
New Jersey	5	1,085	3	619	8	1,704
New Mexico	1	50	1	69	2	119
New York	46	11,971	22	3,300	68	15,271
North Carolina	8	175	7	547	15	722
North Dakota	12	327	1	250	13	577
Ohio	31	2,674	16	2,250	47	4,924
Oklahoma	5	482	1	185	6	667
Oregon	7	981	2	375	9	1,356
Pennsylvania	52	7,104	35	7,526	87	14,630
Rhode Island	5	456	...	...	5	456
South Carolina	13	266	1	100	14	366
South Dakota	5	235	...	...	5	235
Tennessee	20	1,633	5	518	25	2,151
Texas	40	2,087	11	1,207	51	3,294
Utah	3	220	1	214	4	434
Vermont	7	386	...	...	7	386
Virginia	6	270	8	1,184	14	1,454
Washington	10	379	5	706	15	1,085
West Virginia	3	184	4	235	7	419
Wisconsin	20	1,493	8	1,011	28	2,504
Wyoming	2	31	...	...	2	31
Totals	600	61,481	235	41,551	835	103,032

Some Group sponsors through error report total number of retailers served; others "round off" the figures reported. It is estimated that approximately 90,000 retailers belong to Voluntary or Co-operative Groups.

<sup>9</sup>The Voluntary and Cooperative Groups, 1958.

As an example of successful consolidation of many small stores into comparatively few larger stores, the Super Valu Stores, Inc., in Minneapolis, Minnesota, eliminated from its Voluntary group and from service through the warehouse nearly 6,600 retailers. These retailers were transferred to cash-and-carry wholesale outlets, or dropped entirely. The success of Super Valu Stores with its large markets is too well known to require comment here. The retailers affiliated with Certified Grocers of California, Limited, are extremely large-volume operators; there are no small volume outlets in the picture.

The volume in the Voluntary and Cooperative groups field in the 1920's was somewhere around twenty-five per cent of grocery distribution. Nielsen, in 1961, estimates it to be 36%, and Cook Publications estimates it to be 37.5%. The 1958 retail volume figures of the leading 19 Voluntary and Cooperative groups are shown in Table IV, page 70.

The number of group sponsors in the Voluntary and Cooperative groups field has declined for two reasons: First, in the years gone by, many wholesalers set up Voluntary Groups more or less as a gesture, and largely for the purpose of collecting unearned brokerages and unearned advertising allowances, and very little was done for the retail grocer members. When laws were passed preventing warehouse operators from collecting unearned brokerages, these fringe organizations commenced to wither and finally went out of business. Retailer-owned or Cooperative groups with very poor management also dropped by the wayside. Those

TABLE IV,

# 1958 Retail Volume\* of 19 Voluntary and Cooperative Groups<sup>10</sup>

C—Cooperative Group Sponsor

\*Estimated in round figures.

V—Voluntary Group Sponsor

Certified Grocers of California, Limited, Los Angeles, California	\$1,500,000,000	C
United Grocers, Sponsored by United Grocers, Limited, San Francisco, California	900,000,000	C
Orange Empire Stores, Sponsored by Alfred M. Lewis, Incorporated, Riverside, California	863,875,687	C
Super Valu and U-Save Food Stores, Sponsored by Super Valu Stores, Inc., Hopkins, Minnesota	293,000,000	V
A.G. Stores and Foodtown Stores, Sponsored by Spartan Stores, Inc., Grand Rapids, Michigan	265,000,000	C
Fairway Stores and Super Fair Stores, Sponsored by Fairway Foods, Incorporated, St. Paul, Minnesota	230,000,000	C
M&H Cooperative Stores, Sponsored by Malone and Hyde, Inc., Memphis, Tennessee	225,000,000	V
I.G.A., U. S., and Buy-Way Stores, Sponsored by The Fleming Co., Inc., Topeka, Kansas	220,658,800	V
Pioneer Stores and American Family Super Markets, Sponsored by Thriftway Foods, Inc., Philadelphia, Pennsylvania	200,000,000	V
Serve-U - A-G and Thriftway Stores, Sponsored by Associated Grocers, Incorporated, Seattle, Washington	185,000,000	C
Shop-Rite Food Centers and Star Valu Stores, Spon- sored by West Coast Grocery Co., Tacoma, Washington	160,000,000	V
Red and White Stores and Super Duper, Sponsored by S. M. Flickinger Co., Inc., Buffalo, New York	125,000,000	V
Unity-Frankford Stores, Sponsored by Frankford Grocery Co., Inc., Philadelphia, Pennsylvania	122,000,000	C
AG Stores, Sponsored by Associated Food Stores, Inc., Salt Lake City, Utah	119,000,000	C
New England Food Markets, Sponsored by Springfield Sugar and Products Company, Suffield, Connecticut	100,000,000	V
Rainbow, Foodcraft and G-W Stores, Sponsored by Groce-Wearden Company, Victoria, Texas	90,000,000	V
U.R.M. Stores, Sponsored by U.R.M. Stores, Incorporated, Spokane, Washington	80,000,000	C
Central Food Stores, Sponsored by Central Grocers Cooperative, Inc., Franklin Park, Illinois	78,850,000	C
I.G.A. Stores and Sentry Stores, Sponsored by Godfrey Company, Milwaukee, Wisconsin	62,000,000	V

<sup>10</sup> Ibid.

Voluntary and Cooperative groups that are expanding are rendering to their retail members substantially every service that is rendered by the Corporate Chains to their retail outlets. Second, there have been consolidations in the field. While these conditions prevailed, the number of retailers in the field has declined largely because most of the good sponsoring organizations have eliminated from their membership those small volume retailers who proved to be burdensome insofar as warehouse and delivery expense was concerned.

The very definite trend in the Voluntary and Cooperative group field continues to be the establishment of groups in which the retailers have a common denominator. That common denominator is substantial volume and full lines of perishables. For such a group, the sponsoring headquarters can do everything that a good Corporate Chain does for the retail outlet.

Actually, there are only two organized mass distributive divisions in the food field. They are the Corporate Grocery Chains and the Voluntary and Cooperative group. There really is no such entity as a super market "field," because all super markets are contained either within the Chain store field or the Voluntary and Cooperative groups field, and on about a 50-50 basis.

## CHAPTER V

### SUMMARY AND CONCLUSIONS

The food business is one of the fastest changing businesses in the world, largely due to modern methods of distribution. It claims the largest portion of the wage earner's dollar, and it is the largest single business in the United States.

Annual grocery store sales are estimated at \$48,322,000,000, and the total volume of all food distributive sales is estimated at \$54,035,000,000. These figures were released by the U. S. Department of Commerce in December, 1960.<sup>1</sup>

This thesis has dealt with the historical development of food distribution, including a discussion of the growth of the various associations within the food field. These associations are primarily a group of grocers banded together for mutual benefit, such as watching for and opposing adverse legislation, improving the operating efficiency of the membership. The larger associations, i. e., National American Wholesale Grocers Association, the United States Wholesale Grocers Association, and the National Association of Retail Grocers of the United States have representatives in Washington to watch legislative matters. National grocery associations, state grocery associations, and in some cases local grocery associations are organized to aid the food retailer. Practically all of the national

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<sup>1</sup>U. S. Department of Commerce, Bureau of Census, February 14, 1961, p. 4.

associations hold sectional and national meetings. Most of the associations conduct meetings based on a central theme; however, their prime purpose is to discuss methods and procedures for the improvement of their operations.

These associations, along with such food field publications as Chain Store Age, Super Market Merchandising, Progressive Grocer, Food Topics, Voluntary and Cooperative Groups Magazine, and others aid grocery operators in similar ways. Most food publications publish at least some articles on methods that have improved the efficiency of grocery operators. Grocery associations generally devote a portion of their meetings to discussions of methods to improve their efficiency in operation. Some food publications, on the other hand, concentrate on news of the field. Associations, as a rule, do not offer general news of the field; they do release bulletins and copies of presentations made before them. These associations are formed and food publications are issued to enlighten, guide and direct people in the industry.

On the Corporate Chain side of the food field such associations as the National Association of Food Chains are strong and united; however, on the Voluntary and Cooperative group side of the food field the associations are considerably more loosely knit. There is a very loose so-called association entitled, National Voluntary Groups Institute. This is made up of groups, such as: I.G.A., Red and White, Clover Farms, and it has functioned as the agent in regard to legislative matters, and problems of common interest to the national headquarters of these Voluntary groups.



Practically all wholesale grocers sponsoring Voluntary groups belong to the National American Wholesale Grocers Association or to the United States Wholesale Grocers Association, but there is no overall Voluntary and Cooperative groups association.

There is an association in the Retailer-owned or Cooperative Groups field. This is known as Cooperative Food Distributors of America. There are approximately 235 retailer-owned or Cooperative groups. An estimated 105 of these groups belong to the Cooperative Food Distributors of America.

There is also an association known as the United States Wholesale Grocers Association, Incorporated. The headquarters of this Association is at Washington, D. C., and Harold Smith, Jr., is the executive vice president and operating head. It is made up of wholesale grocers located mostly in the South. A few of them are in the northern part of the United States. In general, these wholesalers have comparatively modest volumes and are not as progressive as many of the members of National American Wholesale Grocers Association. There are, however, some outstanding exceptions to this statement. This association functions as the national sponsor of certain Voluntary groups, such as Valu-Mart, Markrite, Shopworth and Economat.

In this last chapter, short summaries are made of each segment of food distribution discussed within the body of this work. In like manner, even shorter conclusions will be drawn in the form of a broad general forecast for each phase, based on its historical development of the present.

### Consumer Cooperatives

Consumer Cooperatives of the modern type, and by that is understood the Rochdale type, started in Europe more than one hundred years ago. They first developed around the retail distribution of grocery store products. Their inception was encouraged because of the inefficient and uneconomic wholesale and retail methods which frequently left a wide cost and profit spread between the producer and the consumer.

The European consumers found that, by operating their own grocery stores they could stretch their food money so that it would give them not only necessary food, but, in addition, interest on their investment in a Cooperative, plus a patronage dividend on their purchases. Thus, they narrowed the spread between the producer and the consumer. Later, the spread was further diminished by the establishment of wholesale cooperatives, and still later reductions in the spread were made by Consumer Cooperatives engaging in processing and manufacturing.

The author examined an attractive brochure issued by Konsum, of Sweden, one of the largest distributive agencies in the world. Konsum seems to conform generally with the Rochdale principles. Even so, the author noted the essentially socialistic manner in which this Cooperative functions. To this author it seems highly improbable that the Independent Yankee type of American farmer will ever allow himself to be regimented to the degree which seems to prevail in Sweden.

In the United States, grocery wholesale and retail methods have

become comparatively efficient, and competition has narrowed the spread between the producer and the consumer to a point where Consumer Cooperatives operating exclusively in the grocery field find they are able to pay their consumer owners only minimal patronage dividends.

The history of the grocery Consumer Cooperative movement in this country has been a repetition of one failure after the other. On the other hand, Consumer Cooperatives dealing with long margin items such as farm machinery, oil, gas, furniture and so forth are able to return satisfactory patronage dividends to the consumers. Some of these organizations also handle groceries.<sup>2</sup>

An example of a successful American Consumer Cooperative is Central Cooperative, Inc., Superior, Wisconsin.<sup>3</sup>

Competent management personnel in the food distribution field is difficult to maintain because of the low scale of wages which prevails in this category. Therefore, it seems safe to predict that Consumer Cooperatives, engaged exclusively in food distribution, will continue to decline in this country. It would seem that this prediction can be applied to other countries as well, since American methods of food distribution have become more of an influence on present systems, notably in Europe and South America, which countries are notably lagging in progress.

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<sup>2</sup> "To Halt Consumer Cooperatives," Gordon Cook. Printer's Ink.

<sup>3</sup> Jerry Voorhis, Executive Director, The Cooperative League of the U.S.A.

### Industrial Stores

The factor of automation in the coal mining industry, coupled with changing consumer shopping habits, have definitely harmed the Industrial Stores. Created primarily to serve the employees of parent companies in areas where there were no other stores, the old time Industrial Store was not only a food distribution outlet; it was also a clothier and supplier of other commodities. In fact, when many of the first coal mines were opened, it was necessary to provide food and shelter in order to interest the local residents in becoming miners. This building of houses for company employees, plus a company-owned store to serve them, was the origination of the company industrial stores. However, as time went on the conditions which made the Industrial Stores essential in the living pattern of its customers changed with the advent of good roads, the automobile, and outside competition from the Chains and Voluntary and Cooperative groups. A different type of worker appeared on the scene -- whose horizons were widened by education. The family unit no longer lived on company property; as a rule, they drove back and forth from the mine or mill in their own cars, passing many competitive stores, such as A & P, Kroger, American Stores, Penney, Sears, Montgomery-Ward, and other markets. Gradually, the company worker turned away from the company store. The stronghold of the Industrial Store, for many years, had been the coal industry. This industry is facing an ever increasing problem of declining demand for their product, due to inroads by other means of producing heat and power (fuel, oil, and gas).

In 1947, approximately 500,000 soft coal miners were employed. Today, it is doubtful if there are more than 200,000 men in the mines. Still these 200,000, with automation, produce more coal than the 500,000 did with picks, shovels, and mules.

Company towns and company stores still exist, but there are many ghost towns and a greatly reduced volume of sales in the remaining industrial Stores.

Industry feeling is that in another few years there will be about 100,000 coal miners doing the job of the former 500,000. This would seem to portend still harder times ahead for the Industrial Store; its controlled customer potential, by virtue of the fact that an employee would patronize his company store, is steadily shrinking. Even though today's worker has several times the purchasing power of his pick-and-shovel predecessors, he is more selective and harder to please, due to his better understanding of economics. This means with the decreasing patronage from the workers within a company, the Industrial Store, if it wishes to stay in business, must engage in a highly competitive field; it can not depend for its existence on the employees of the parent company alone, but must draw upon the entire surrounding area; it must offer to its present and potential customers essentially the same variety, quality and pricing of products as its Chain, Voluntary and Cooperative Group competitors. It must also advertise and promote, as its competitors do, for the day of ready-made controlled traffic is steadily diminishing. Some Industrial stores have successfully done this.

The future of the Industrial Store does not look promising; its field has materially declined and will continue to do so. This will make the Industrial Stores a lesser factor in food distribution, although approximately 60 per cent of total Industrial Store sales are in food products. This is less than 2 per cent of total food sales. It can clearly be seen that the Industrial Store -- perhaps even more than the Consumer Cooperative, is destined to gradual elimination.

#### Government Commissaries

The sale of subsistence to Army personnel had its origin in the time of the Revolutionary War, with the inauguration of the "Sutler System." Sutlers were peddlers who followed the Army for the purpose of selling food and other supplies to the troops. The general regulations of the Army, published in 1825, and the Articles of War recognized the existence of sutlers and established rules under which they would operate. The 1825 regulations also authorized Commissary Officers to sell to Officers such provisions as were required for their subsistence, charging them the contract price, plus the transportation costs. In effect, the sutlers' operation was what now exists in the Army Commissary Stores and Post Exchanges.

Abuses were prevalent, such as overcharging, shoddy merchandise, and any of the other bad practices occasionally found in the retail trade. Extension of unrealistic credit placed many of the patronizing personnel under the obligation and whim of the seller. A further inequitable charge against the system was that officers could obtain supplies more

reasonably through the Commissary than they could through the system.

As a result, the system was abolished by the Act of July 28, 1866.

After this date, Post Traderships and Canteens eventually developed to supply the needs of military personnel.

By 1892, the Post Canteens were permitted to use public transportation and public buildings for their operations.

Over a period of time the Post Exchange was created to supply not only the necessities of military personnel through Cooperative Stores and Restaurants, but also to afford luxuries not supplied by the Government, such as, reading and recreation rooms.

By 1941, the Army Exchange Service was established. Today this Service operates under a centralized system, which has proven to be the most efficient way to serve military personnel, as intended by the government.

The Government Commissary is a store operated by or under the direction of the United States Armed Forces. Some are operated directly by the United States Government, while some are operated on concessions.<sup>4</sup> Two well-known government commissaries are: The Commissary at Fort Jay, Governor's Island, New York, and the Commissary at Fort Hamilton, Brooklyn, New York.<sup>5</sup>

### Corporate Chains

In the historical development of food stores, the Corporate Chain

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<sup>4</sup>Authority for Definition: Manual of Retail Terms, by John W. Wingate, published by Prentice-Hall, Incorporated.

<sup>5</sup>Authority for Examples: Information Officer, General Information Office, U.S. Army, First Army Headquarters, Governor's Island, N. Y.

was a very early and favored method of food distribution. However, in this country, they have come into prominence in comparatively modern times. The food chain movement is generally agreed to have begun with the birth of the Great Atlantic & Pacific Tea Company, in 1858. The chain movement gathered momentum with the development of many food chains, national, regional, and local, from the early 1920's to 1930's - when intense anti-chain legislation became an active force. Although the general trend has been for this legislation to vanish over the years, there are still some anti-chain store tax laws in effect which were designed expressly to hamper the continued growth of the food chains.

The food chains fought against this anti-chain legislation with marked success -- proving their efficiency to the public -- legislators and consumers alike. History helped in the cause, as the chains over the years provided a legitimate, effective type of low cost food distribution, and gradually became accepted by the public as a normal constituent of the food field picture.

Although the growth of the food chain is steadily progressing, a tendency to retard in growth rate may be noted. Saturation points have been reached in many areas of the country, although population growth may eventually tend to balance this.

Trends have been definitely established. One stop super markets, each one replacing anywhere from 4 to 5 smaller units dot the country.

In the years which lie ahead, the task of the food chains will be



to maintain their present strong position in the field. All that would seem to be required is a continuation of the sound and constructive policies which have earned for the food chains widespread recognition as outstanding merchants and good citizens. Greater opposition, however, may be expected to arise from the Voluntary and Cooperative group, but the public, with its free choice of patronization, has demonstrated through its spending in food chains that it favors the food chain system. Thus its future seems secure. Those food chain organizations with competent management and forward-looking vision will certainly progress. Indeed, competent management, more often than the form of food distributive organization, seems to be responsible for the continued success of the organization.

### Voluntary and Cooperative Groups

The retailer-owned or Cooperative groups were begun in the early days of the movement for the purpose of consolidating purchasing power and buying merchandise on a more economical basis.

Since the Voluntary and Cooperative groups, together with the Corporate Chains, are the major segments in food distribution, a summary of their respective positions in today's food distributive picture might be in order to lead into a forecast of the future for the Voluntary and Cooperative groups. Utilizing the definition outlined in this thesis, it can be stated that the Voluntary and Cooperative groups account for about 36 per cent of the total dollar volume, compared with the Corporate Chain's 35 per cent of total dollar volume. The Voluntary and Cooperative groups list some 2,000

warehouses with 90,000 retail outlets; the chains about 1,000 warehouses with 21,000 retail outlets.

Of the true super markets, previously defined as having a full volume of \$500,000 or more per annum, there are just over 10,000 in the country, divided about half and half between the Voluntary and Cooperatives and the Chains. Sub-Super Markets -- those with volumes below \$500,000 and above \$250,000 per annum number about 30,000, of which the Chains claim about 10,000, and the Voluntary and Cooperatives, about 20,000. Approximately 6,000 small and medium-sized food outlets exist in the Chain field, and about 65,000 such outlets in the Voluntary and Cooperative group field.

These organizations are the leaders in their respective fields:

SAFEWAY's net profit on sales is	1.4%	Corporate Chain
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SUPER VALU's net profit on sales is	1.57%	Voluntary
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A & P's net profit on sales for 26 weeks ending August 27, 1960 is	1%	Corporate Chain
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CERTIFIED GROCERS OF CALIFORNIA, LIMITED, is a non-profit organization. In 1960, it returned 32.2% on total mem- ber investment. This return represents 1.75% on member purchases for the 44 week period ending September 3, 1960.	Cooperative
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Generally speaking, the Food Chains' net profit on sales is approximately 1%. There are many progressive operators in the Voluntary and Cooperative group fields earning a greater percentage of net profit on sales than do the Chains.<sup>6</sup>

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<sup>6</sup>Telephone conversation with Gordon Cook, Cook Publications, 1961.

With the good Voluntary and Cooperatives generally faring better than the good Corporate Chains, it becomes easier to understand, when this fact is considered along with the general discussion within this thesis, why most of the Corporate Chains have at one time or another seriously considered changing their status to a Voluntary arrangement, and why a number of them have actually done so.

With all of this in mind, it seems that a logical prediction may be made, stating that the future of the Voluntary and Cooperative groups look very bright.

New Voluntaries and Cooperatives will no doubt be formed not only by some of the Corporate Chains changing over, but also by those Independent Retailers who will come to realize that, with few exceptions, unless they are affiliated with Voluntary and Cooperative groups they can go in one direction only, and that is backwards!

### Food Distribution in General

In conclusion, it seems the further development of food distribution will be carried on primarily by two major segments, the Corporate Chains, and the Voluntary and Cooperative groups. Apparently the minor segments, i. e., Consumer Cooperatives, the Industrial Stores, and Government Commissaries will account for even smaller percentages of total food distribution dollar volume than ever in history.

The trend has been definitely towards replacement of 4 or 5 smaller stores with larger retail outlets of true self service, one-stop, super markets, many of which are in shopping center developments. Despite their replacement of smaller stores, the larger super markets have grown so rapidly that in some areas of the country saturation points have been reached. In such areas the food distributing organization behind these stores is concentrating upon improving their stores in existing outlets rather than building additional ones. Intense competition has brought back some of the elements of service present in the old time consumer service stores, such as "carry out" operations or, in some cases, even delivery.

The distribution and sales of food is the world's oldest commercial activity, actually dating back to the primitive cave man who bartered a portion of his day's hunt for a well made spear. However, food distribution in the modern sense is one of America's youngest industries and is constantly changing and evolving. Many persons spend a great deal of time making more individual purchases of food than any other item consumed, and they also devote more time planning its use and preparation than in any other homemaking activity.

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California.

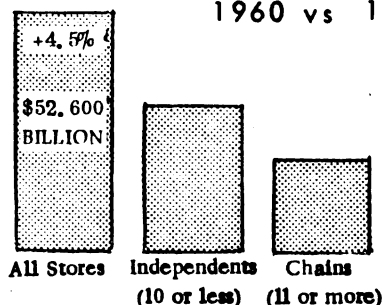
Super Market Institute, Chicago, Illinois

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New York, N. Y.

## APPENDIX

### U. S. GROCERY STORE SALES

1960 vs 1959

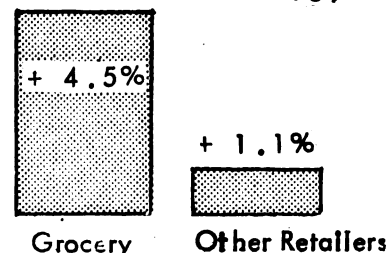


Total U.S. grocery and combination store sales were 4.5% ahead of the previous year, exceeding \$52 billion dollars. Sales of all independent stores were up 4.2% and chain stores increased their sales by 5%.

When we compare the rate of sales gain in food retailing with that of all other kinds of retailing, automobiles, furniture drug, hardware, department stores, service stations and other retail establishments -- we see food stores did extremely well, that the American public elected to increase rather than cut back on the quantity and quality of merchandise purchased from your customers and their competitors.

### GROCERY STORES VS OTHER RETAILERS

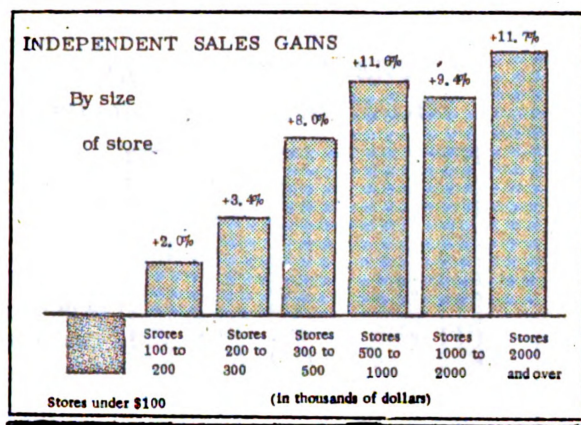
1960-1959



### INDEPENDENT STORES PER CENT REPORTING

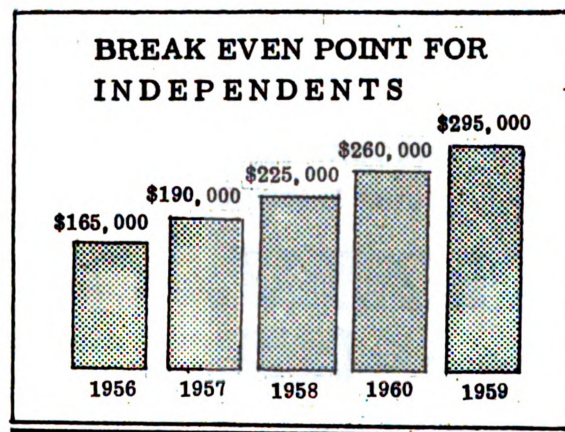
Size of Store	With	With	No
	Sales	Sales	
	Gains	Loss	Change
\$100,000 to \$200,000	56%	31%	13%
200,000 to 300,000	68	22	10
300,000 to 500,000	70	18	12
500,000 to 1,000,000	74	17	9
1,000,000 to 2,000,000	76	11	13
2,000 and over	67	14	19
ALL STORES	68%	21	11

Each year for the past 28 years Progressive Grocer has made a nation-wide survey of independent stores. In recent years we have extended our research into the chain and wholesaling fields. The findings and observations that follow are based, not only on our studies of 1960 operations, but also on the invaluable information and background that comes only from our continuous research over many years.



To get a proper perspective against which to measure these sales gains, keep in mind that chain sales increased 5% and total U.S. grocery store sales increased 4.5% in 1960. While there are many exceptions in terms of individual stores, independents doing less than \$300,000 did not do as well as the all-industry performance but independents doing over \$300,000 did far better. This pattern of sales gain by size of store has appeared each year for the past 10 years and it is expected to continue.

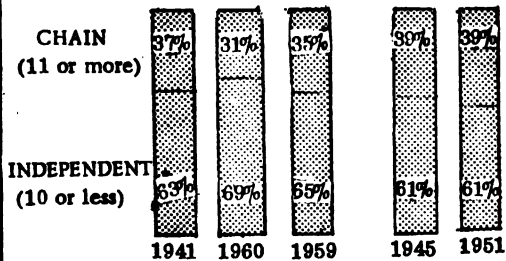
Five years ago, in 1956, the break even point was \$165,000. It rose to \$190,000 in 1957, \$225,000 in 1958, \$260,000 in 1959 and \$295,000 in 1960. This, of course, is only a rough indication of the minimum volume size needed to move ahead faster than the national average. There are thousands of stores that defy this measurement, both up and down, but it does offer the independent retailer and his wholesaler a clear trend to consider.



CHAIN GAINS BY SIZE OF CHAIN	
	% of Sales Gain
\$500 Million & Over	+3.8%
250 to 500 Million	+3.0%
100 to 250 Million	+12.1%
50 to 100 Million	+12.0%
Under 50 Million	+18.3%
Independent SuperMarkets +9.2%	

Here we see that the smaller the chain the greater the gain, a trend that has been evident for several years. The biggest chains, those doing over \$500 million showed a 3.8% gain. Those doing \$250 million to \$500 million up 3.0%, \$100 million to \$250 million up 12.1%, \$50 million to \$100 million up 12.0% and those doing under \$50 million up 18.3%.

### CHAIN-INDEPENDENT SHARE OF TOTAL SALES

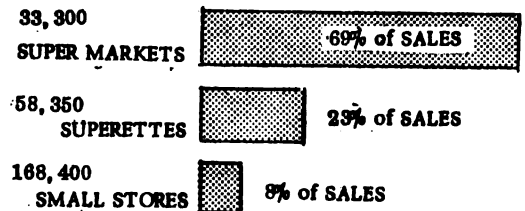


Independents, defined as operators of 1-10 stores, did 61% of total U.S. grocery store volume in 1960. Chains, operators of 11 or more stores, did 39% — both unchanged from 1959. The long term trend, according to Progressive Grocer and U. S. Census estimates, has been somewhat in favor of chains, but the ratio seems now to have steadied, due in large measure to the enlightened retailer-wholesaler integration to which the new distributor has made such great contribution. Your attitudes and policies today and in the future may well be the most important single factor in determining the future course of this trend.

And as we look at food retailing from still another angle we see that — the retail food business is today dominated by supermarkets, stores doing over \$375,000 a year that accounted for 69% of total U.S. sales in 1960. With superettes they account for 92% of total volume. The total number of stores has declined sharply in the past 10 years, from 446,000 in 1950 to 260,000 today, a drop of 186,000 outlets, or 42%.

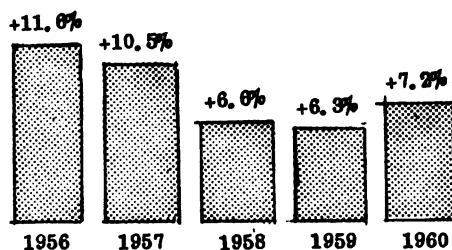
### SHARE OF U.S. GROCERY SALES

By size of store

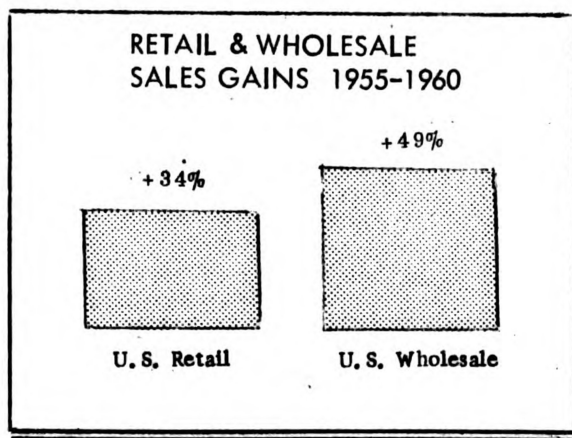


### WHOLESALE GROCER SALES

% GAIN OVER PREVIOUS YEAR

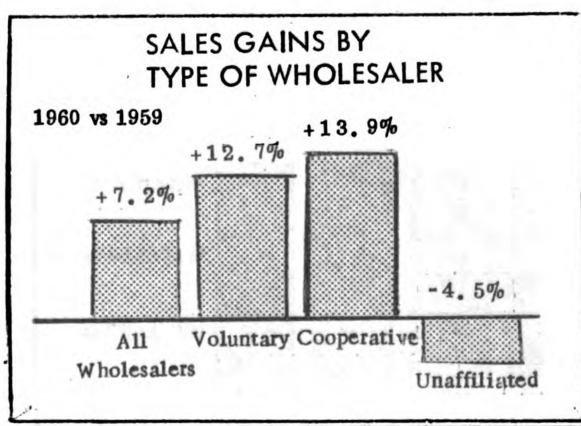
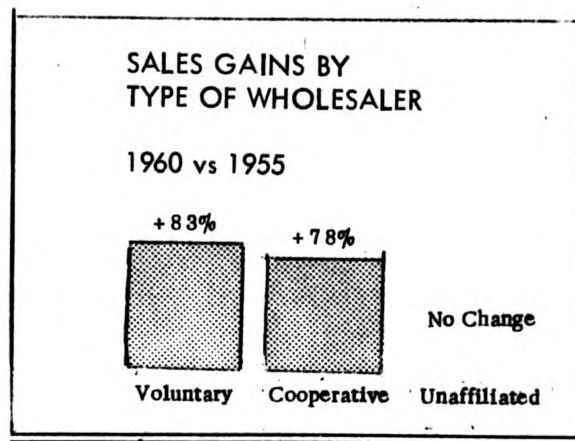


These are some of the highlights of retailing. Let's turn our attention now to your business — the role of the grocery wholesaler — the new distributor and his performance in 1960



As we compare sales in 1960 with those in 1956 we see that sales of all retail food stores in the U.S. have increased 34%. Sales of general line wholesale grocers are up 49%, eloquent testimony to the ingenuity, initiative and effort that has come to characterize your segment of the food industry in recent years. This is your total picture and for a better understanding of your progress we must look more closely at the several basic elements in wholesaling.

Wholesalers sponsoring voluntary groups have increased their sales 83% and cooperative wholesale firms have shown a 78% gain since 1955. This compares with no change in sales for unaffiliated wholesalers and a 34% gain in the nation's grocery store sales over the same period. As a result of these spectacular gains, voluntary and cooperative wholesalers now dominate wholesaler distribution, although they represent only a relatively small per cent of the number of wholesale organizations.



Confining our attention to the year just past, we see that sales of all general line wholesalers were up 7.2% over 1959. Voluntary group wholesalers showed a sales gain of 12.7%, cooperative wholesalers up 13.9% and wholesalers unaffiliated with retail stores showed a sales loss of 4.5%. Again, keep in mind that retail sales were up 4.5% during the same period.



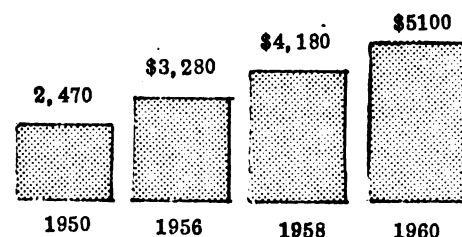
### AVERAGE SALES PER WHOLESALER IN 1960

	NUMBER	AVERAGE SALES (Millions)	TOTAL SALES (Billions)
Voluntary	425	\$11.65	\$4.95
Cooperative	200	16.20	3.24
Unaffiliated	1700	2.02	3.44
TOTAL	2325	\$5.00	\$11.63

Number of voluntary and cooperative wholesalers has held fairly steady since 1955, while the number of unaffiliated has declined sharply. Average wholesale sales per firm are now at new highs for voluntary and cooperative firms. Sales of retail stores supplied by the average voluntary wholesalers are about three times the \$11.6 million shown here, and sales of stores supplied by the average cooperative are about four times the \$16.2 million in wholesale sales. Total sales are likewise at all-time highs for affiliated wholesalers.

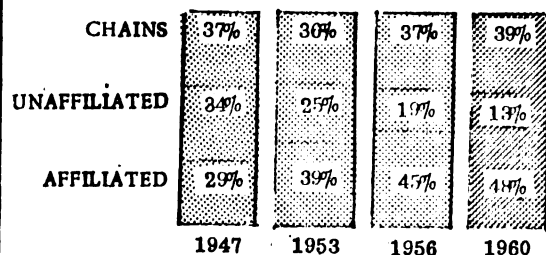
Wholesalers have recognized the importance of new items, as shown by the increase in number handled over a span of 10 years. They have been quick to accept and to bring to the attention of retailers the improved versions of existing products and the totally new kinds of merchandise that has sought distribution through food stores. They keep in close touch with retailers, asking advice, seeking recommendations and filling requests for new items requested by stores. As a result, the new distributor today carries more items than chain warehouses, and more than twice the number of ten years ago.

### NUMBER OF ITEMS SHANDLED



AVERAGE INCREASE PER YEAR... 263 ITEMS

### GROWTH OF AFFILIATED INDEPENDENT RETAILERS



In 1947, as we emerged from World War I when super markets were just beginning to develop, when we were on the verge of a revolution in food distribution — chain stores were doing 37% of sales, unaffiliated independents 34% and affiliated independents 29%. Thirteen years later in 1960, chains had increased their share to 39%, only a modest shift, but independents experienced a drastic change. Those unaffiliated with their wholesalers went down to 13% of total sales, while affiliated independents brought their share up to 47% to become the single biggest block in U.S. food retailing.



## WHY CHAINS & INDEPENDENTS ARE IN COMPETITIVE BALANCE

Both have --

EFFICIENT SUPPLY CENTERS  
LOW MERCHANDISE COSTS  
MODERN STORES  
MANUFACTURERS SUPPORT  
PROFESSIONAL STORE PLANNING

Today, both chains and independents have virtually equal facilities in terms of these five important factors.

Both have excellent warehousing facilities -- big, efficient, modern. One finds it difficult to tell a chain warehouse from a wholesaler warehouse -- inside or out.

Both can and do buy in quantities sufficient to earn the lowest prices -- both deliver to stores at comparable costs -- hence, no important price advantage for either.

Both have modern stores, big, colorful, complete merchandise lines, parking, decor -- physical aspects are similar.

Both enjoy excellent relationships with manufacturers and relationships are becoming closer and stronger. Manufacturers are anxious to serve both in more ways, in better ways.

Both have professional help and knowledge in arranging, setting up stores, new and old, both have ready access to the newest and best in ideas and equipment.

The independent has many advantages inherent to local, individual business. Among them is the built-in incentive native to the owner who runs his own business, perhaps the most important single advantage of all. He has far more freedom to carry a wider variety by type and brand of merchandise.

## INDEPENDENT ADVANTAGES

Owner-Manager incentive  
Freedom to carry wider variety  
Closer Customer Relations  
Promotion Flexibility  
Retail Pricing  
Store Modernization, Expansion  
Build sales in existing stores  
Adapt store to community

### CHAIN ADVANTAGES

MORE NEW STORES  
BIGGER STORES  
GREATER FINANCIAL RESOURCES  
LOW PRICE REPUTATION  
MORE AND STRONGER ADVERTISING  
TRADING STAMPS  
MERCHANDISE RESEARCH

More new stores in preferred locations, often new shopping centers due to the natural tendency of investors to favor larger retailing firms. Bigger stores than independents, often based on chain ability to over-build in anticipation of population gains — due in large extent to greater financial resources. A low price reputation traditionally associated with chain operation. More frequent, bigger and often times better advertising. First with trading stamps, greater per cent of stores offering them, combined with chain ownership of stamp companies and lower stamp costs. Better organized, more adventurous research in sales and merchandising.

And so, with some advantages common to both, and with certain others exclusive to each, the retailing scales are balanced today as never before.

As a direct result of this balance — and because of what many call a surplus of super markets -- food retailers today must find ways to operate each super market, each food store more effectively, more efficiently, more in terms of the consumer's not the retailer's interests.

We are told, therefore, by many leaders in retailing that tomorrow's greatest opportunity lies at the local level within the individual store. Kroger's Joseph Hall says their business must be decentralized and localized. Steinberg's builds each store differently, matches it to its community.

Success will increasingly depend on the nature, the policies, the activities, the vitality of the individual store. Its merchandise assortment and presentation offers tremendous opportunities such as proven by the Dillon Company, where the application of new principles have been an important factor in the 46% increase in net profits during the last half of 1960.

The new distributor has come a long way in the last decade — but this is a new decade with new conditions, new problems and new opportunities. Knowing you as we do, we don't doubt for a moment your ability to make even greater contributions to the food industry in the years ahead.

**TOMORROW'S OPPORTUNITY!**  
THE INDIVIDUAL STORE



Merchandise Assortment  
Merchandise Presentation  
Retail Pricing  
Promotion & Display

**CALIBRE OF STORE MANAGEMENT**

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