

A PROPOSAL FOR THE FINANCING OF
INDEPENDENT SUPER MARKETS BY
WHOLESALE GROCERS

Thesis for the Degree of M. A.

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Erwin Lee Feller

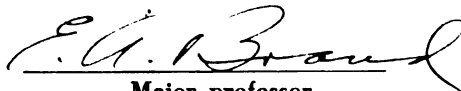
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Erwin Lee Feller

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**A PROPOSAL FOR THE FINANCING OF INDEPENDENT SUPER MARKETS
BY WHOLESALE GROCERS**

**By
Erwin Lee Feller**

A THESIS

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CHAPTER I

INTRODUCTORY MATERIAL

A. The Problem and Need for Solution

Great difficulties have been encountered by wholesale grocers, since the end of World War II, in trying to supply the rapidly growing larger type food markets and still make a profit. This difficulty appears general throughout the United States.

Independent super markets and superettes did over 69.4 percent of the independent food store volume in 1953. Total independent food sales equaled 64.1 percent of the national food dollar as compared with the chains' share of 35.9 percent.¹

More important than these figures however, is the fact that in 1953, as in 1952, the trend to greater sales in larger stores and declining sales in small stores continued at an accelerated pace. Independent super markets had average gains of 14.3 percent while small independent store sales showed a decline of two percent.²

¹Dipman, Carl. "Impressive Gain Reported by Independent Super Markets and Superettes." Progressive Grocer, New York: April, 1954. Volume 33, Number 4, pp. 40-47.

²Loc. cit.

With this rapid growth of the super market type operator has come intensive competition among wholesale grocers, the result of which has meant that these larger type markets, by playing one wholesaler against another, are often able to purchase their dry grocery requirements at cost (including warehousing and delivery) or below. Independent wholesalers have continued to serve them on this basis because they feel that they need the additional volume to cover overhead, or they need to carry these large stores as "prestige accounts."

Independent wholesalers throughout the country have attempted to deal with this problem by expanding their services to these larger retailers in many ways including the offering of store engineering service, accounting service, advertising service, et cetera. However, none of these efforts have served to answer the basic problem. In fact, the offering of store engineering service has served to bring to light another fact, which is that many competent men wishing to go into business in the larger type stores just do not have access to the large amount of capital necessary to open this type of store.

Not long ago Robert Mueller, associate editor of the Progressive Grocer, commented that the largest problem facing independent food dealers in their struggle to maintain their competitive position with the corporate chains was their problem of financing.³

³Mueller, Robert. "Independent Grocers Made Good Progress in Past Year." Progressive Grocer, April, 1953. p. 46.

Thus we see that independent wholesalers are faced with a two-fold problem in this regard. First, the consumer buying trend is to patronize the large type market and due to the intense competitive situation most wholesalers are encountering increasing difficulty in making a profit out of sales to this type outlet. Second, again with the consumer buying trend to the large type market in mind, it is recognized that many customers of the grocery wholesaler who have the personal capacity to operate a large type store just do not have access to the large amount of money that is now required for super market operation.

This lack of financial resources to support independent expansion into the super market class is not only a handicap to independent dealers, but also poses a threat to the future potential customer volume of the independent wholesaler.

B. Purpose of Thesis

Personal consultation with a number of independent wholesale grocers has served to boil the problem of serving the larger type markets down to two points. First, if the wholesaler is to receive a fair profit on his services to the larger type market, better methods of controlling the market's buying policy need to be devised. Second, if independent retail super market development is to keep pace with chain store super market development, new methods of group financing and supervision need to be worked out by independent wholesalers.

In answer to this two-fold problem it will be the purpose of this thesis to present the elements necessary for financing and controlling a group of independent super markets by independent wholesalers and to make recommendations on the procedures to be followed in setting up an organization designed for this purpose.

C. Method and Scope of Study

The bulk of the data for this thesis was secured through personal and telephone interviews with various wholesalers, retailers, and other businessmen specifically skilled in the fields of finance, super market operation, and group supervision. To this information, directly acquired through the use of interviews, has been added the study of the limited bibliographical references in this specialized area of super market financing and control.

The scope of this study does not include all the minute detailed information necessary to actually set in operation a super market financing and control corporation. However, an attempt is made to cover the broad areas of the problem under consideration and the content is intended to reveal information upon which executive decisions, as to future action, can be based.

CHAPTER II

CURRENT AND HISTORICAL ATTEMPTS AT SOLUTION

Before plunging into the actual proposal of this thesis, it should be of considerable interest to discuss the extent of current and past attempts on the part of independent wholesalers to finance their retail customers and to review briefly the reasons given for this service together with a few of the methods now employed.

A. The Extent of Retailer-Financial Aid

A study made by the Committee on Modern Food Distribution in 1951¹ revealed that ten percent of the wholesalers responding to their questionnaire do offer systematic financial assistance to their retail customers for expansion, modernization, and renovation.

In another study titled "How Some Wholesale Grocers Build Better Retailers,"² published in 1952 by the United

¹Gore, Grant. For The Committee on Modern Food Distribution. "Financial Assistance for Retailer." The New Concept in Wholesaler-Retailer Teamwork. Battle Creek, Michigan: General Foods Corporation, 1951. Chapter IX, p. 34.

²Davenport, John H., and R. W. Hoecker. "How Some Wholesale Grocers Build Better Retailers," United States Department of Agriculture Production and Marketing Administration, Washington, D. C. Marketing Research Report Number 12, May, 1952. p. 34.

States Department of Agriculture Production and Marketing Administration, one-third of the wholesalers interviewed did offer their customers some type of financial aid. The Department of Agriculture study revealed that only a few wholesalers loaned their own funds to their customers, but a considerable number did make connections with banks and insurance companies, which in turn, supplied the retailer with the necessary funds. The wholesaler often guaranteed the loans and set up a reserve fund to cover any losses which might occur.

The study, referred to previously by the Committee on Modern Food Distribution,³ indicated rather plainly that, for the most part, only the large and rather well-financed operators have enough idle money, or credit, to help their retailers to any great extent. Herein lies a basic problem for the relatively small wholesaler who has the desire to build larger accounts and assist his retail customers, but does not have the individual financial strength with which to undertake ventures of this type. It is for this type of operator that this thesis has been written.

The Committee on Modern Food Distribution ended their section on financial assistance for retailer with these words:

"It seems probable that, as time goes on, more and more of the well-financed wholesalers will find it advisable either to extend cash loans or to make their own credit facilities available to carefully selected retailers who obviously have a future in the food business but

³Gore. Op. cit.

who do not have the resources or the long-standing reputations in their own communities necessary to obtain the financial help they need."⁴

My only quarrel with this statement is their emphasis on "well-financed" wholesalers. It is an objective of this thesis to show how even the most modestly financed wholesaler can participate in group efforts to finance and develop bigger and better independent food retailers.

B. Why Financing is Being Done

The writer had the opportunity to discuss retail financing personally with several wholesalers who are engaging in this service rather heavily and their general feeling was that a wholesaler must today take a more aggressive role in customer development if he is to play a positive part in his own destiny.

Fred J. Bury of Godfrey and Sons Company, Milwaukee, Wisconsin, pointed out that it is rare for all the essential component parts that go into a good new retail operation to be present coincidentally without special effort to bring them together by plan and purpose. He states:

"Think of all the things that must synchronize before you obtain an outstanding retail operation that will produce substantial volume for you. The good location must be available; the proper type store must exist or be constructed; with adequate parking; the competent retailer must be available; he must have adequate finances; he must be inclined toward you as his supply depot. How often do these five things occur? Not frequently, unless you bring them about yourself."

⁴Gore. Op. cit.

Some wholesalers now active in retailer development, including the supplying of financing assistance, hold that there is in every distributor's territory retail managerial material with good basic qualifications but not all the capital that present large market installations need. From this group, it is held, can come the development, through assistance in financing, that will supply the wholesaler with added sales volume greatly in excess of the commensurate risk.

It is further felt that failure to develop facilities of this nature delays the wholesaler in tapping the potential sales in his territory.

Again to quote directly Mr. Fred Bury:

"Delay and inaction in taking advantage of opportunities means a less alert organization in general because it reflects a lack of confidence, aggressiveness, and progressiveness. None of these can inspire people and no plan or organization can go very far unless both formula and faith are present. Bewilderment and floundering is the path to discouragement. A wholesaler weak in this capacity makes it easier for competition to establish itself strongly, and lack of promotional activity (including financial assistance) serves as an invitation for competitors to come into its territory."

One wholesaler offering a financing service is quoted in the Department of Agriculture study previously referred to, as follows:

"There is a very important ingredient to this formula of developing retail food stores, and that is providing a medium to long term financial assistance for the new store or the store which is modernizing its business. There are not many people interested in the retail grocery business who have the capital necessary for such a deal, and the banks are not in a position to help any but the very best credit risks. The importance and the need of a financing

program is indicated by the fact that 40 percent of our cost⁵-plus accounts have received such assistance from us."

It is along these lines that the arguments run in favor of financial assistance to retailers, but the question asked by most wholesalers not now involved in this type of service is, WHEN AND HOW.

C. Criterion For Financing

Naturally, different wholesalers now involved in a financing service have different standards in judging when a retailer should be financed, and what requirements should be set up as prerequisites to receiving financial aid. Listed below are a number of opinions that different wholesalers have mentioned as being important considerations in determining whether or not to enter into a particular financing arrangement, together with some of the requisites to sound financing.

1. The retailer under consideration should possess excellent and unquestioned character, have better than average capacity and certainly should have a reasonable amount of capital.

2. Assurance should be given or arranged for that the retailer being financed will give the wholesaler his complete loyalty in purchases and not have excuses for buying products

⁵Davenport and Hoecker. Op. cit.

elsewhere when available from the wholesaler making the financing of the store possible.

3. The retailer should have proven by his previous method of operation that he can and will conduct his business with intelligence and that he has the capacity to operate the new store at the supposedly greatly increased volume. As one wholesaler remarked: "Being a good small store operator is no guarantee that he will be a good large store operator."

4. Along this same line of thought, the retailer should have demonstrated his ability to make a satisfactory gross profit and to administer his business efficiently.

5. Definite assurance or specific agreements should provide for cooperation by the retailer with the wholesaler on all organization procedures. Included should be assistance in ordering and receiving so as to enable the wholesaler to handle his volume most economically. Also, assurance should be given by the retailer that he will participate in group advertising or other group activities set up by the wholesaler.

6. The retailer receiving financial aid should subscribe to the wholesaler's accounting service; or, if such a service is not provided, then agreement should be made for a periodic cooperative review of the financial status of the business.

7. "Is the retailer in question hungry?" was a criterion mentioned by one wholesaler in judging the qualifications of particular retailers. The implication here was whether or not

the retailer was progressive and anxious to grow in the future and not be self-satisfied with a minimum of success, thus tying up a high potential town or city location, giving the wholesaler only a secondary type outlet in the area.

8. Both the wholesaler and the retailer should be confident of the location selection.

9. There should be mutual agreement on the size of store in relation to the location potential. This also applies to parking area.

10. A prospectus should be prepared by both parties to arrive at conservative sales, gross profits, expense, and net profit estimates. A sound prospectus should tell whether or not the venture is sound and in the best interests of all concerned. Also it will furnish the information on which the payment-of-debt-plan is to be established.

11. Mutual discussion leading to an agreement on the total investment is a natural requisite. This discussion should include the total investment in stock, fixtures, deposits, insurance premiums, advance rental, and the required operating fund. This should not be underestimated.

12. It should not be necessary to explain to most operators today that it should be understood that the new business should operate on a strictly cash and self-service basis with no charges or deliveries.

13. The wholesaler, with the retailer, should review and study the lease and have knowledge of what should and what should not be in a lease, the various options, et cetera.

14. The wholesaler should audit the retailer's insurance program to be sure that there is ample protection on fire and extended coverage and all other forms of casualty risk.

15. The wholesaler should have a bona fide option to purchase all retail outlets, including the buildings. With this arrangement, if the retailer should decide to sell in the future then the wholesaler will have the opportunity of retaining the store if it proves to be an unusually desirable and profitable one.

16. If the wholesaler involved is a voluntary group operator, it is reasonable also to have some type of agreement or option permitting the wholesaler to resell or retain the unit if the retailer should withdraw from the group.

17. If the retailer being considered is a person who has not previously been in the food business, it is especially important to check his complete education, employment, and occupational history. The high school and university he attended can furnish enlightening information which will indicate study habits, behavior, I.Q., receptivity, ambition, work habits, cooperation, and many other characteristics on which the wholesaler must rely.

18. Any deal of substantial size should be given careful screening. One wholesaler felt it to be worthwhile spending \$100 or more for the prospect and his wife to take psychological aptitude screening tests to determine not only their favorable characteristics, but also their temperamental and

emotional traits. The reason given for this was that operating problems which may be a part of the development venture are more difficult to solve if neurotic or unstable people are involved.

19. Some large wholesalers, who are engaged in financing activities, believe that the wholesaler undertaking such a service should first be able to supply most of the products moving through the retail outlet including meats, produce, frozen foods, dairy products, and baked goods. The feeling in this case was that if a wholesaler supplies only a limited amount of the products, say 35 percent, it is asking too much of the wholesaler to finance equipment for merchandise not supplied. Another reason behind this point of view is that the exclusive grocery jobber is not likely to have either the necessary knowledge of perishable products necessary or the control of selection and purchase when such products originate from outside sources. It might be added here that there is a considerable amount of contention on this point and the fact remains that a number of exclusive grocery jobbers are giving major financial assistance to retail outlets and report satisfactory results from their efforts.

There are undoubtedly many other standards of judgment and criteria applied by different wholesalers in deciding when and in what specific cases financial involvement is justified. However, the suggestions listed above indicate

in broad outline the thinking of a number of wholesalers active in this field of service.

Now the question arises, once it is decided a given retailer and a specific location justifies financing, what steps in the financing process are currently being followed by those wholesalers already in the field?

D. Financing Methods

Quite naturally, with possible as many as ten percent of the nation's wholesalers now offering retailers systematic financial assistance for expansion, modernization, and renovation,⁶ it is to be expected that the methods employed and the extent of involvement range from very simple financial loans to very complex financial arrangements involving a number of different parties and requiring detailed contracts and agreements.

Only a few of the wholesalers studied by the Department of Agriculture⁷ loaned their own funds for financing purposes. Others, the study showed, were making connections with banks and insurance companies, which in turn, supplied the retailer with the necessary funds. As stated earlier in this chapter, in such cases the wholesaler often guaranteed the repayment of part of the loan and sometimes the entire amount.

⁶Gore. Op. cit.

⁷Davenport and Hoecker. Op. cit.

Since most wholesalers require all their capital for the direct operation of the warehouse, it is considered desirable by many supporters of this service that retailer financing be through outside sources. Some of these outside sources are listed below.

1. Banks will usually make loans on stock and fixtures with partial endorsement by wholesaler for any amount over what the bank may set as their loan limit. Some banks will loan up to 60 percent of fixture values without the wholesaler's endorsement and require the wholesaler's guarantee on any excess. Stock mortgages are usually taken by the bank as additional security for both the bank and the wholesaler, especially when the loan is large and the wholesaler may have endorsed a portion thereof.

2. Banks may loan on insurance, cars, real estate, shares of stock, bonds, or by endorsement by a financially acceptable person.

Loans are obtainable today at about four and one-half percent discount rate. One wholesaler reports that an arrangement has been made with his bank that places one percent of this interest into a special reserve account to be built up until it is equal to 20 percent of the total unpaid loans. If any losses are sustained, these would be charged against the reserve whether these are guaranteed by the wholesaler or not. When the fund is built up to 20 percent of loans outstanding, the excess is split, two-thirds to the wholesaler and one-third

to the bank. If the arrangement is terminated, the balance in the fund is similarly split after all the loans involved have been paid.

One arrangement made on guarantees to banks is that monthly payments covering the guaranteed loan are applied at one-thirty-fifth each month, so that the guarantee carries along for the full 36 month term. It is considered more advantageous to the wholesaler to guarantee the top portion of the excess and be relieved of liability when the loan is paid down to a certain figure. If the retailer is able to pay more than the required monthly payments, these are applied to the portion of the loan which the wholesaler guaranteed.

3. Avoidance of wholesaler's endorsement is oftentimes possible when the seller of say, equipment, can be induced to carry the amount of financing required above what the bank will finance. This is done by having the seller take the buyer's note, secured by a second mortgage on fixtures, and having the note fall due after the final installment on the bank loan is paid (36 months). The buyer can then again obtain a loan from the bank in about the same amount as the original loan and apply the proceeds on the seller's note. Usually, the terms on the original loan are liberal enough to permit the retailer to accelerate his payments and thus refinance earlier for the benefit of the seller.

4. If the amount of loan required is greater than the prospectus indicates is possible for retirement in 36 months,

the excess should be on a "freeze" basis, requiring only interest payments. Thus the frozen amount would be approached after the first bank loan has been paid.

The source of money for this "freeze" is in some instances obtained at five percent or less (simple interest) from other retailers of the wholesaler, known to have surplus and anxious to place it with other retailers closely associated with the wholesaler, perhaps in a voluntary group arrangement. The wholesaler is usually willing to endorse such notes, if necessary.

5. Real estate is in some cases financed through insurance companies with the wholesaler endorsing the amount in excess of a percentage agreed upon through engotiation with the loan agent.

Any amount of loan required over and above what the insurance company will grant must be located from such other sources as may be available. Here again it is cautioned that the aggregate payments must be in harmony with projected net profits.

If a retailer has other desirable property, residential or commercial, the insurance company may use this in the financing pattern and thus reduce the wholesaler's guarantee accordingly.

6. One way in which a new retail outlet can be financed is through a plan some what similar to that of the General

Motors Holding Company plan. This need not involve the wholesaler's guarantee.

Here is an example of how it works:

The proposed fictitious venture involves stock of \$30,000, fixtures of \$60,000, operating fund of \$5,000 -- Total \$95,000.

The proposed retailer has \$25,000, an investor is willing to put in \$34,000, and the bank will make a 36 month loan of 60 percent of fixtures, or \$36,000. Total \$95,000. A corporation can be organized with the retailer employed as manager at wages of \$150 per week. Shares may be issued to retailer and investor for the amount of their investments.

After five percent is paid to each party on their investments, the net profit can be split equally. The retailer's share of the net profit, less his income taxes, must be used to purchase the investor's stock. The stock purchase agreement and the stock is deposited with the bank as escrow agent. The investor retains full voting rights, and thereby full control, until the retailer has completed the payment of all the investor's stock. While the corporation has debt, all profits must first go toward its retirement with the equities being evenly credited to retailer and investor.

An arrangement of this nature is fair to the retailer as well as the investor. It gives both five percent on their

stock. It gives the retailer an attractive wage. It gives the investor a reward for his risk. It offers inducement to the retailer in two ways--one-half of the net profit and an opportunity of purchasing the investor's stock and thus acquiring full ownership. As soon as the business has paid the bank loan, the retailer can again borrow a similar amount from the bank and pay the investor.

Appendix A on page 88 illustrates the application of the General Motors Holding Company Agency financing plan to the financing of independently owned retail super markets.

E. General Observations on Retailer Financing

Some wholesalers, considerably involved in retailer financing, feel that any wholesaler undertaking a financing program should establish a maximum limit on the amount of contingent liability to be assumed. What this should be is a matter for the wholesaler to determine after he counsels with his banks. Obviously this should be very limited at first. All contingent liabilities assumed should be recorded as accepted and a schedule prepared on the first of each month. Comparisons should be made between the prospectus prepared before each financed venture was undertaken and the actual accounting report. This will bring out errors of judgment and develop better and more accurate procedure on subsequent ventures. If results warrant, the extent of financing may be expanded.

In a confidential letter to the writer another wholesaler experienced in this field points out that it is important to realize that the wholesaler's bank may consider his contingent liabilities as part of his line of credit, whether these contingent liabilities are with his bank or not. Thus, for the wholesaler's sake, it is desirable to keep his bank informed as to the profits the retailer is making in the expansion program. It is well to acquaint the bank, too, on what favorable contributions the retailer financing program is having directly on the wholesaler's business.

A retailer financing program is felt by some wholesalers to have missed one of its prime advantages unless it is accompanied by a good public relations job, not only with the banks but also with other finance sources, indicating the excellent profits an efficiently operated independent retailer unit can make under the wholesaler's tutelage and sponsorship. Such a public relations program of course must be backed with figures to prove the story. Further, the wholesaler's organization can gain pride and inspiration for the job they are able to do for others. One wholesaler contacted put it this way:

"Surely, there are not many organizations, actively and with personal financial risk, who are keeping the door of opportunity open to individuals who aspire to the ownership of their own business--it's a chord that strikes home to the hearts of all people."⁷

⁷Bury, Fred. Godfrey and Sons. Personal Communication.

One of the keys to current financing efforts seems to be a reserve fund. One method for creating such a fund is to set aside a portion of the profit on the additional sales volume, created by virtue of this credit service, as a means of covering the additional risk. The added volume should have the effect of reducing general overhead percentage-wise and allow for the building of this reserve.

In the study referred to earlier made by the Department of Agriculture one wholesaler quoted made the following comment regarding losses incurred by him in offering this service:

"In our case financial aid is furnished on a very selective basis; we always see to it that a deserving retailer gets financial aid. If we cannot assist him in getting the aid he needs from a financial institution, oftentimes we furnish the aid ourselves. In 20 years' experience we hardly had a loss--with the exception of two or three times when we misjudged our man."⁸

Fred Bury of Godfrey and Sons in commenting on their reserve fund policy in a personal letter to the author makes this statement relative to their reserve fund.

"We do have substantial reserves here for that purpose, but again, in order to build these reserves, 55 percent of which are subject to income taxes, we have to take it out of the limited gross profit that is possible. Yet, we have done this and our write-off against this in the past 14 years amounts to .000211. Our buildup on the reserve is .1 percent of sales. So you can see from this that .1 percent of sales makes more than ample provision for the hazard involved."

⁸Davenport and Hoecker. Op. cit.

Another observation that can be made on wholesaler-retailer financing plans is that by this financing the wholesaler would no doubt be adding to his salesman's volume which obviously would not have come about through the specific efforts of the line salesman. Therefore, if the salesman is on commission, a lower percentage of commission should apply and the difference applied toward the reserve.

In concluding this chapter, it should be noted again that there are numerous financing plans and verifications of financing plans now in use, and it is the specific purpose of this thesis to present still another retailer financing proposal which the author believes has application to many small wholesalers and some large wholesalers who for one reason and another have not, as yet, become involved in a retailer financing and development program. However, regardless of the particular plans used, a retailer financing and development program, if it is sound and well managed, can be the means through which a selected group of high standard units can be established. Only by careful planning can this be accomplished. As the availability of this service becomes known, many good prospects will seek the wholesaler. As the higher standards of outlets for the wholesaler's products build good reputations, they will become recognized in the market and the sponsor-wholesaler will build his prestige for being able to get the job done. This will attract owners

of property desirous of having the wholesaler's customers as tenants.

One wholesaler, in summing up his financing service, put it this way:

"Financing is a plus service--it involves additional risk--it requires special understandings as well as patience and a willingness to have some disappointments and occasional losses. But properly administered, it is valuable for all concerned with the added reward that comes from a job well done."⁹

⁹Davenport and Hoecker. Op. cit.

CHAPTER III

THE PROPOSED PLAN

A. The Proposal In General

After considerable research relative to this study had been completed, the broad outlines of the plan to be proposed had become clear. Inasmuch as the main body of this thesis will be given over to a discussion of the various requirements of this plan, a summary of the main idea should serve to give a better understanding of the various elements of the plan as they are taken up.

It is proposed in this study that a Super Market Financing and Control Corporation be set up by at least five independent wholesale grocers for the purpose of putting into operation a minimum of ten super markets to be leased to independent owners. The proposed corporation would arrange for the necessary locations, land, building, equipment, and inventory of these new markets. These markets would then be leased to independent owners under strict contractual arrangements with the new corporation, intermittently from here on to be referred to as "The Company." The super markets would be individually owned and operated by carefully selected store managers, men known to be capable of operating a good-sized super market. In addition to financing these stores, the Company would

assist in the supervision, merchandising, advertising, accounting, et cetera. These stores would be supplied with groceries by the wholesalers holding stock in the new Company and in whose territories the stores would be located. Under the initial plan, each of the five wholesalers owning equal shares in the Company would have two super markets opened and supplied by them in their territory. After initial operating experience has been gained and part of the initial investment has been amortized, additional markets could be established as the situation warranted. It would be possible under this proposal to open a number of such super markets over a period of years without additional capital requirements from the stockholders, simply by parlaying the original investment as it is amortized.

While the primary purpose of this new Company would be assisting more and more independent owners to get into the super market business and by so doing increase the profitable volume of the various wholesalers concerned, it is possible under this plan for the stockholders of the financing corporation to eventually realized a sizable profit from their investment.

B. Requirements of the Plan

1. Technological Requirements

a. Managerial requirements. Of utmost importance to super market management and control is the competence of the

management both at the top level and at the store level.

Top level. First, let's consider the top level management. If a group of wholesalers should undertake the organization of a Super Market Finance and Control Company, the first problem to be considered would be the hiring of a general manager for the new corporation. It is not expected that the average stockholder in the proposed new Company would have a thorough knowledge of retail operations, particularly, as these skills apply to group operation. It is doubly important, therefore, that the man chosen as general manager for the new Company be a man of proven ability in super market management and particularly in the field of group supervision. Such a man must carry out his trust with ability to guide the new development, and to assist the board of directors in policy-making decisions. There are not many such men available and particularly is this true in the independent field. A man of this type might best be found working for a chain organization, having previously acquired the ability to supervise management personnel and control groups of stores.

In addition to the general manager, group control of ten stores would require the services of the following skilled people: one meat supervisor, one grocery and produce supervisor, one comptroller, one advertising man, and one secretary. Such a basic staff could easily be expanded, as the store group grows.

Store level. Now let's consider managerial requirements at the store level. It would be possible to attract the highest type of super market managers under this plan of making it possible for a store manager to go into business for himself, by making his payments out of operations. It might be desirable to pick former chain store managers, since they are accustomed to this type of group control.

It would appear on the basis of careful consideration that the following represents the minimum qualifications for new super market manager-owners.

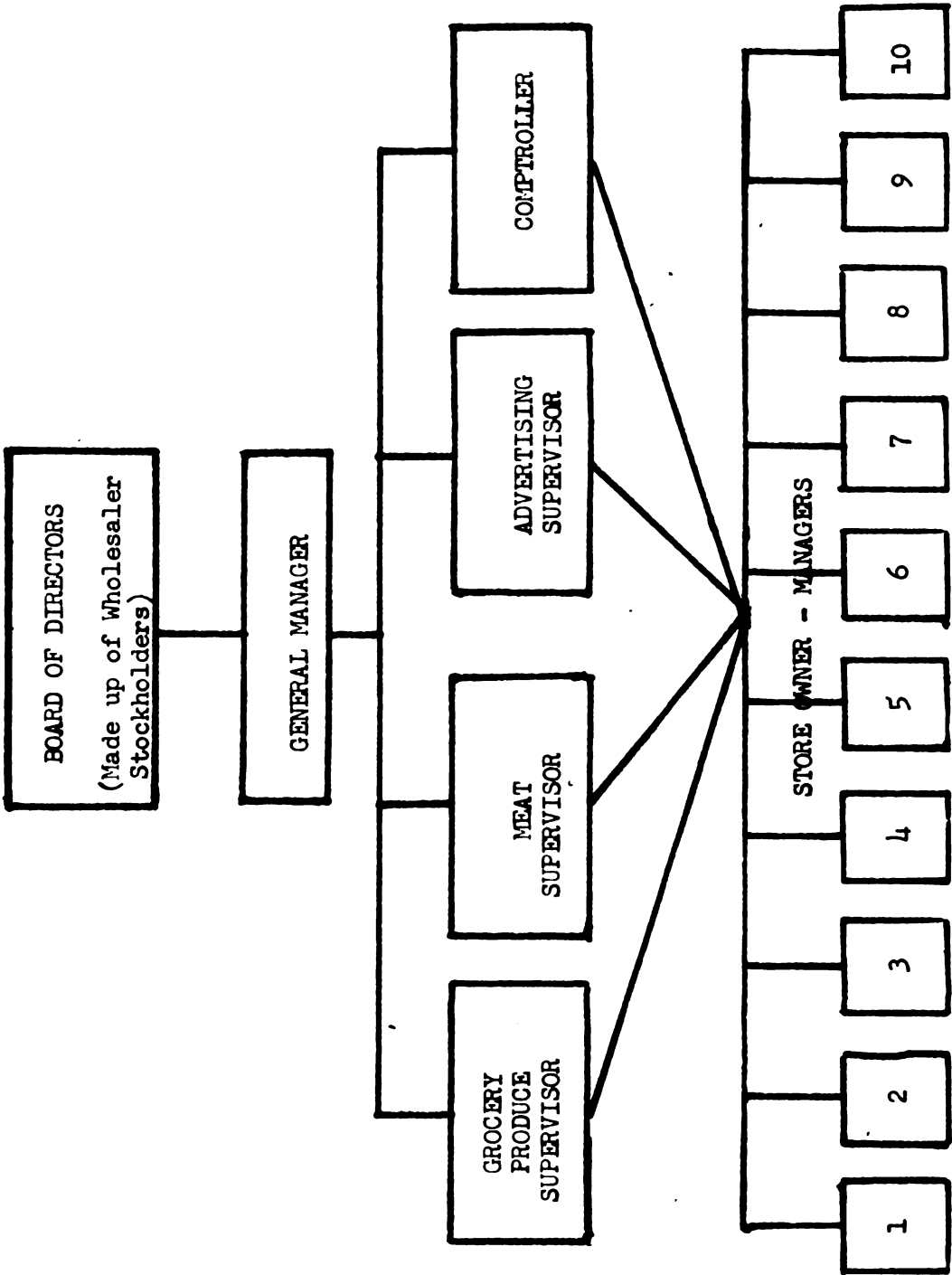
- (1) Proven ability to operate a super market--
(\$10,000 or up).
- (2) Working knowledge of meat business.
- (3) Honesty, ambition, initiative.
- (4) \$7,000 or more to invest in business.
- (5) Willingness to accept salary same as now earning with a bonus arrangement allowing salary to go to a maximum of 1.2 percent of market's gross sales if budgeted net profit is maintained.
- (6) Type of individual that is cooperative, stable, healthy, and young enough to stay with business for a number of years.

See Exhibit 1, on the next page, for organizational chart for the proposed management structure.

EXHIBIT I

PROPOSED SUPERMARKET FINANCE AND DEVELOPMENT CO.

- ORGANIZATIONAL CHART -



b. Location of stores. There are many factors of location that will not be discussed for the purposes of this thesis. However, location must have business potential, appearance, and size that will make possible and probable from \$10,000 to \$20,000 per week volume.

Aside from the published articles and books available on this very important question of location, I would like to recommend to the interested reader two unpublished studies available on loan from the Library of Michigan State College, East Lansing, Michigan. One is a thesis on "Super Market Site Selection" written in 1953 by Christos D. Lillios and the other is also a thesis on "Evaluation of Food Chain Store Locations" written in 1954 by Paul Swope. Both these studies will provide the interested individual with far more information on this important question of location than it is proposed to include in this study. It suffices to say that a development such as the one now being proposed can not afford wrong judgments in super market site selection and a great deal of time and study should be spent in determining the best possible locations for the proposed new stores.

A study of the materials available on this subject will provide information on how to go about answering such troublesome questions as: "Is this the right town?" "What is the per capita spending power?" "What is the retail strength of the town?" "What is the size of the trading area?" "What is

the outlook for future growth?" "What is the volume opportunity?" "Which way is the town growing?" "What is the competition and how can it be evaluated?" "How should you go about selecting a building or land site?" "What are the peculiar characteristics of metropolitan, suburban, rural, and highway locations?" et cetera.

c. Building specifications. Building specifications will naturally vary depending on numerous factors. However, as a general rule interior selling space should not be less than 5,600 square feet. This means a market around 7,000 square feet in all, including back room storage and preparation area. An accepted principle of good store layout is that plans for the building should include 20 percent of the area for storage and preparation space.

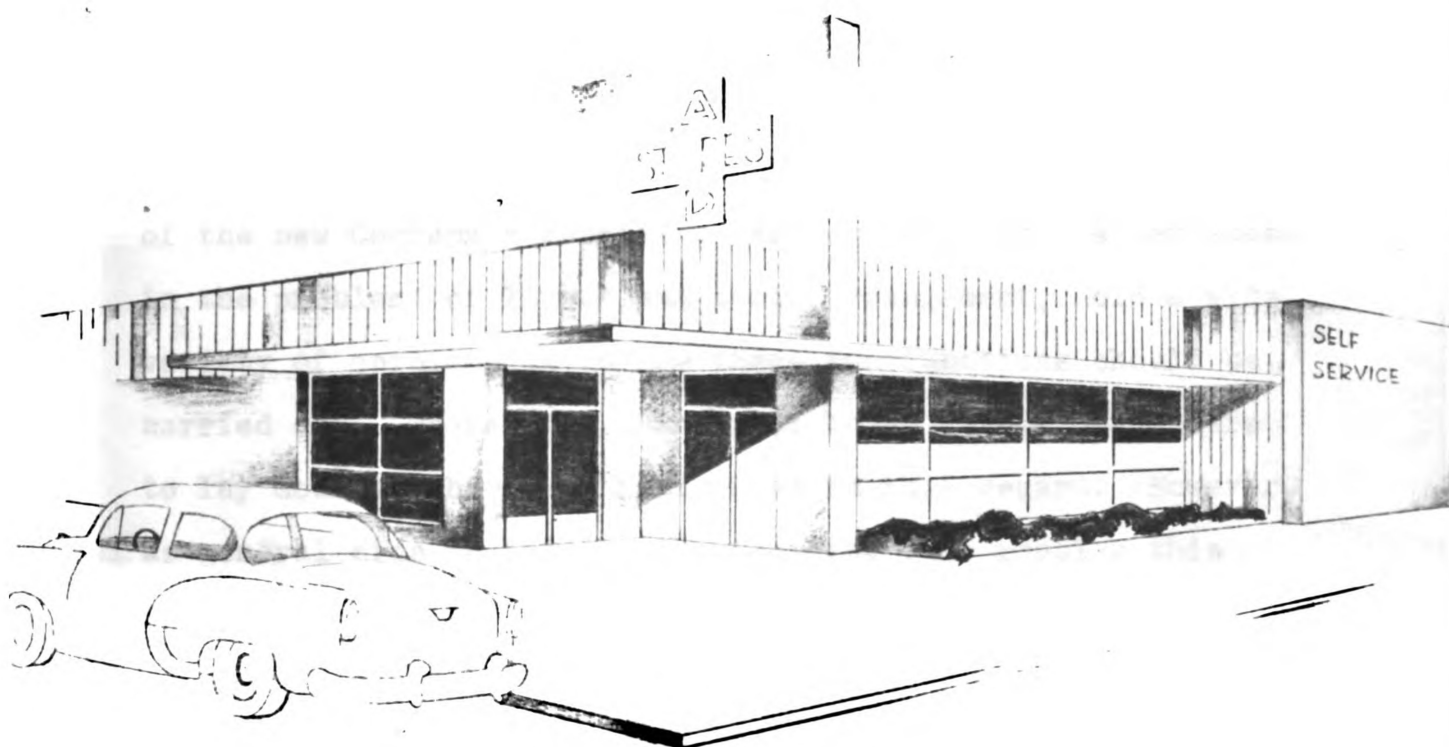
See Exhibit 2, on page 31, for a sketch of proposed exterior design.

This size market is recommended due to the fact that it can handle a volume of business anywhere from \$10,000 to \$20,000 without difficulty and it is in this volume range that industry figures report the maximum return on investment.¹ Also, larger markets are not recommended for the scale of operations being considered here due to the fact that their high cost increases the risk factor in one

¹Harb, Ray O. "How Red and White Compares to the Industry." Red and White News. Chicago, Illinois. May, 1952. p. 17.

EXHIBIT 2

SKETCH OF PROPOSED EXTERIOR DESIGN



location. It is considered better to spread the risk capital over a number of locations, rather than have too great an amount tied up in one location, considering the limited financial scope of this proposal.

d. Department and merchandise layout. Naturally, if such a venture as is proposed here is entered into, the department and merchandise layout in the proposed stores are subjects that will require considerable thought on the part of the new Company's general manager. Personnel, experienced in the problems of layout and stock arrangement, hold a wide variety of opinions as to how these two functions should be carried out. Therefore, there will be no attempt made here to lay down any hard and fast rules in this regard. However, as general aids in helping to visualize this problem this section does include the following Tables and Exhibit.

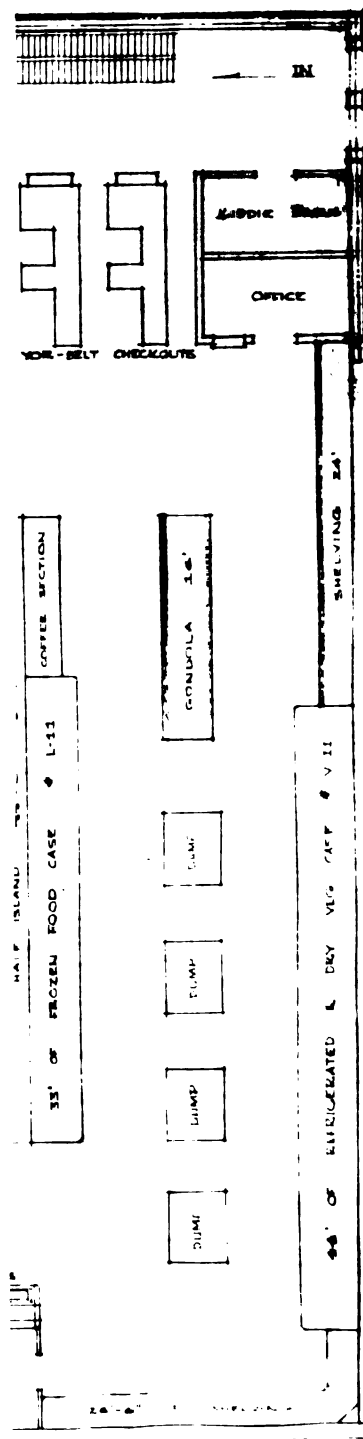
See Exhibit 3, on page 33, for suggested interior layout.

See Table I, pages 34-35, for a comparative chart of dry grocery shelf space allocation, as recommended by various authorities.

See Table II, page 36, for a breakdown of normal departmental sales in dollars and per lineal foot, together with an estimate of the number of feet of equipment needed to handle a volume of \$15,000 per week.

e. Operational and control procedures. Operational and control procedures in group operations involves three major elements: supervision, centralized accounting, and group advertising.

EXHIBIT 3
SUGGESTED INTERIOR LAYOUT



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TABLE I
COMPARATIVE CHART OF
DRY GROCERY SHELF SPACE ALLOCATION

Commodity Group	Percent of Total Linear Feet of Dry Grocery Shelf Space				
	Scott	NARGUS	PG	CSA	GU CS
1. Baby Food	5	4	3.2%	4.3%	5.5% 3.1%
2. Baked Goods	4	0	5.0	8.4	4.5 3.7
3. Candy, Gum and Nuts	2	1	3.0	3.7	3.0 2.4
4. Canned Fruits	5	7	3.0	3.3	3.7 3.7
5. Canned Juices	6	7	3.0	2.5	3.7 3.1
6. Canned Vegetables	9	10	5.5	6.0	3.7 6.1
7. Cereals	6	6	4.6	1.6	4.9 3.2
8. Cookies and Crackers	5	6	8.1	5.8	9.6 6.1
9. Coffee	2.6	4	2.6	7.2	2.6 2.4
10. Canned Meat and Fish	4	6	3.6	4.2	5.7 4.9
11. Condiments, Pickles, etc.	5	4	5.2	4.1	3.7 5.9
12. Desserts	2	2	1.0	000	1.8 1.2
13. Dried Fruits and Vegetables	2	3	2.0	1.5	000 3.7
14. Flour and Mixes	3.5	3	4.5	3.5	1.1 3.2

TABLE I
Continued

15. Health and Beauty Aids	000	000	3.0	4.3	7.0	2.3
16. Household Supplies	4.5	4	5.0	3.0	4.5	5.2
17. Housewares	000	000	2.4	000	2.9	7.3
18. Jam, Jelly, etc.	3	3	2.0	1.8	1.8	3.7
19. Macaroni Products	1.5	1	1.0	1.0	4.1	1.5
20. Pet Foods	2	2	2.0	1.3	1.9	1.2
21. Paper Products	5	4	4.1	3.7	3.0	5.5
22. Shortening, Lard, Baking Needs	4	3	4.0	2.7	2.3	4.1
23. Soft Drinks	4	4	2.6	1.5	3.4	1.8
24. Soaps and Powders	5.5	5	6.5	7.4	7.4	6.2
25. Soups	4	4	3.2	1.9	2.2	2.1
26. Sugar and Syrup	3	3	2.8	4.8	1.7	3.8
27. Tea, Postum, Cocoa	2.4	2	2.9	1.0	1.9	1.2
28. Cigarettes and Miscellaneous	000	2	5.1	9.3	1.9	1.4
TOTALS	100%	100%	100%	100%	100%	100%

The Chain Store Age column is percent of sales by commodity group.

Scott - Scott Paper Company CSA - Chain Store Age NARGUS - NARGUS
PG - Progressive Grocer CS - Colonial Stores GU - Grand Union

TABLE II

**"BALANCED" SALES BY DEPARTMENTS
BASED ON A WEEKLY SALES VOLUME OF \$15,000***

(The sales per lineal foot and the estimated number of feet of equipment to handle this volume are also shown.)

Weekly Sales Capacity -- \$12,000 - \$17,500

Department	Weekly Sales	Sales Per Lineal Foot	Number Feet Needed
Meat	\$5,050.00	\$100.00 per foot	41 feet
Produce	1,650.00	36.00 " "	44 "
Dairy	1,350.00	80.00 " "	16 "
Bakery	1,050.00	50.00 " "	21 "
Frozen Foods	750.00	30.00 " "	22 "
Ice Cream	300.00	30.00 " "	10 "
Dry Groceries	5,550.00	16.00 " "	346 "
Non Foods	300.00	20.00 " "	15 "

*Source: Spartan Stores Sales Service Bulletin;
Grand Rapids Wholesale, Grand Rapids, Michigan.

Supervision. First, let's consider supervision.

Modern super market operation is more than a one-man job. It requires the services of specialists and supervision by people not directly connected with the time-consuming routine of actual store operation. Supervision under this proposal should provide for specialized assistance to the store managers in merchandising and informational aids covering changes and improvements in every phase of food store operation. The supervisors should be available to help the store managers with special sales events and demonstrations. The supervisors should also be responsible for weekly bulletins, produced in cooperation with the Company's advertising manager, which will post the retailer on the advertising schedule, market information, food news highlights and merchandising stunts.

One important function of the supervisor is to assist the retailer in carrying out sound store policies. As an aid to this function it is recommended that one of the first jobs to be undertaken by the supervisors is to develop, in cooperation with the several store manager-owners, a store operations manual covering major areas wherein it is deemed desirable to establish set policies.

As an aid in getting started on this job Appendix B, on pages 96-103, has been added to this study. Included in this appendix are some proposed store operation policies that may have application to this particular proposal.

Some operators, long in the field in independent food distribution, may question the necessity of set store policies. However, it is a fact that one of the big difficulties of many independent operations is that the operator "plays by ear." That is, in most cases there are no formal policies except those in the head of the operator. His concepts of store operation are carried out by personal labor, by example, and by personal dictates to the employees.

There is no disputing the fact that many store owners operating in this fashion have been successful. However, in the writer's opinion, store operations can be carried out far more effectively and efficiently if definite procedure is thought out in advance and set down in writing and made available to at least each department head in each store.

Aside from the obvious advantages of providing a planned operation and facilitating employee training, it is an accepted principle of modern executive control to work out definite policies, often in cooperation with the employees themselves, and then to let the policies dictate action in specific cases rather than the "hard hand of the boss." It is considered far more effective to be able to point to store policies, for example, and point out to an employee that it is store policy to do thus and so, than to merely tell the employee to do it this way or that and leave the impression that it is only the whim of the "boss." This same situation would apply in the

proposed relationship between the Company supervisors and the store manager-owners.

The purpose for including Appendix B is to outline some possible policies that might form the base upon which store policies could take shape in the form of an operations manual. The areas covered in Appendix B are obviously not exhaustive, but the treatment given those covered should suggest how other areas of store management can be set up in definite policy form.

Again, as with other sections of this thesis, there is no attempt made here to deal exhaustively with the problem of "supervision" since considerable material has already been written on this subject and it would serve no useful purpose to go into detail on this function.

For the reader who is interested in a detailed examination of the supervisor's job may I recommend the reading of "Retail Food Chain Store Supervision" which is an unpublished thesis written by Cletus F. Berning, Jr., in 1953. A copy of this thesis may be borrowed from the Library, Michigan State College, East Lansing, Michigan.

Centralized accounting. Another area of "operations control" is the problem of centralized accounting.

Each store in the proposed group should be required by agreement to keep accurate and adequate records of the business to the complete satisfaction of the Company. The records should include such items as: weekly sales, cash on hand

and in the bank, accounts payable, and such other facts as the Company may request to be reported on a weekly basis.

Each store should take a physical inventory each quarter in each year under the direct supervision of the Company, and it should be understood that all store records are to be made readily available for inspection by the Company at any time.

The Company, on its part, should provide an adequate bookkeeping system, together with budgets and statistical reports, et cetera, so that the owner can know the exact position of his business at regular monthly intervals.

See Exhibit 4, pages 41-42, for a suggested store report form.

Group advertising. The third and final area of "operations control," from the standpoint of the Company, is the problem of group advertising.

The Company should provide the services of an advertising man to assist all stores in the group with their advertising. The stores will, as a result, have the advantages of professional help in layout and design of sales stimulating advertising copy and point-of-sale material.

The Company should also take the major responsibility for collecting advertising allowances on behalf of the owner-managers, which in turn will help to defray part of the advertising costs.

This advertising service should include a centralized group mat service with layouts, suggested copy, illustrations, et cetera.

EXHIBIT 4

SUGGESTED STORE REPORT FORM

(Store Stamp)		WEEKLY SALES REPORT					WEEK ENDING	
DAY OF WEEK		CUMMULATIVE GROCERY	CUMMULATIVE MEAT	CUMMULATIVE PRODUCE	CUMMULATIVE OVERALL	SHORTAGE OR OVERAGE	DEPOSITS BY DAY AND AMOUNT ONLY	CUMMULATIVE CUSTOMER COUNT
MONDAY	This Year							
	Last Year							
TUESDAY	This Year							
	Last Year							
WEDNESDAY	This Year							
	Last Year							
THURSDAY	This Year							
	Last Year							
FRIDAY	This Year							
	Last Year							
SATURDAY	This Year							
	Last Year							
TOTAL# UNITS SOLD	This Year							
	Last Year							
DOLLAR MAN	This Year						TOT.DEPOSITS	
	Last Year							
HOURS MAN	This Year					NET TOTAL	TOTAL	
	Last Year							
UNIT MAN	This Year						AV.SALE This Yr.	
	Last Year						PER CUSTOMER	Last Yr.
WRAP SUPPLIES	This Year							
	Last Year							

WAGES	GROCERY				MEAT				PRODUCE				OVERALL			
	HOURS		TOTAL SALARY	%TO SALES	HOURS		TOTAL SALARY	%TO SALES	HOURS		TOTAL SALARY	%TO SALES	HOURS		TOTAL SALARY	%TO SAL
TITLE	This Year	Last Year			This Year	Last Year			This Year	Last Year			This Year	Last Year		
CLERKS- FULL																
CLERKS- PART																
MANAGER																
TOTALS																

The advertising man employed by the Company should be responsible for the grand opening of each sponsored super market, including the arrangements for "give-aways," souvenirs, radio and newspaper advertising, et cetera.

2. Financing Requirements

The financial requirements for building and equipping one super market, of the type proposed in this thesis, are shown in Exhibit 5, on page 44. Inasmuch as special recommendations will be made later on in this study as to how financial requirements are to be met, this section will merely enumerate these estimates.

a. Land and buildings. It is not possible to arrive at an exact figure on land and building costs, as these costs will vary slightly according to location of the property and the building costs in the area. A safe estimate of building costs would run between \$6.50 and \$8.00 per square foot. Thus a conservative estimate on actual building costs for a 7,000 square foot market would be \$55,000. Estimate is based on personal interviews with Robert A. Reid of Atlas Finance Company, Detroit, Michigan, and Ray O. Harb, Red and White Corporation, Chicago, Illinois. Both these men have had considerable experience in working with independent and chain store organizations on building problems.²

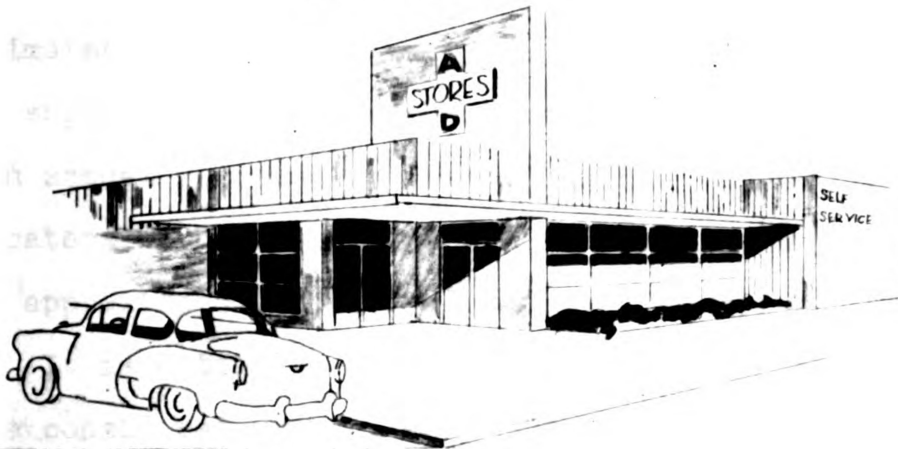
²Reid, Robert A., and Ray O. Harb.
Personal communications.

FINANCIAL REQUIREMENTS FOR BUILDING AND EQUIPPING
PROPOSED SUPER MARKET



	Cash	\$ 7,000
Land	\$15,000	Equipment \$40,000
Building	\$55,000	Inventory \$22,000
Parking	\$11,500	Leasehold \$ 5,000

\$155,500



A fair estimate of land cost for a super market 7,000 square feet and a parking lot of 21,000 square feet would be \$15,000. This land estimate is based on the average land costs as reported by Chain Store Age Magazine and presented in a pamphlet published by the National Association of Food Chains in connection with their September, 1953, convention.³

Basic building and land costs of a market 7,000 square feet on a plot of land 28,000 square feet and based on the above estimates would then run in the neighborhood of \$70,000. If air-conditioning were added this figure would be increased by \$7,000, making a total cost of \$77,000.

b. Equipment. The estimate submitted on equipment cost is a composite estimate based on several estimated bids from reputable store equipment distributors who in turn based their estimates upon years of experience in working with builders of new super markets. These estimated bids were cross checked with actual reported equipment costs by several independent operators with recent experience in equipping new markets of the approximate size being proposed in this study.

It is estimated that equipment for a super market of the size considered would be \$40,000. This includes all necessary selling equipment and back room equipment. As a point of reference on actual expenditures for equipment item for item

³Anon. "What Does It Take to Maintain Food Chain Leadership in Stores?" National Association of Food Chains, Convention, September, 1953.

please refer to Table III on pages 47-48. Presented in this table are the actual equipment expenditures by the Hart's Food Stores, Incorporated, Rochester, New York, in equipping one of their new 10,000 square foot markets in 1951.⁴

c. Inventory. The opening inventory estimate, including produce, meat, and dry groceries, is \$22,000 for one store with an expected volume of \$10,000 per week.

Leading super markets today consider 20 times per year average turnover to be reasonable although outstanding operations in this respect have been known to attain a turnover rate, taking all departments into consideration, of 36 times per year. At the same time many successful large volume stores do well on an average turnover of 18.⁵

The above estimated inventory figure of \$22,000 per store might be broken down still further by estimating the inventory for the meat department at \$1,800, the produce department at \$500, and the grocery department at \$19,700. These estimates are based on the budgeted sales and gross margins detailed in the Operating and Capital Budget on page 64.

d. Leasehold. Estimated cost of leased property improvement is included, since in most cases completed buildings require specialized installations not included in the regular building costs. Leasehold cost is estimated at \$5,000 per

⁵Rubens, Donald B. "A Case Study in the Development of a Supermarket." Unpublished M.A. thesis. Michigan State College, 1951. p. 31.

TABLE III
FIXTURE AND EQUIPMENT COST EXAMPLE
Star Market Number 23

Hart's Food Stores Incorporated, Rochester, New York, 1951

Total actual cost for equipping Star Number 23 was as follows:

<u>Quantity</u>	<u>Item</u>	<u>Cost</u>	<u>Extention</u>
5	Cashier Checkout Counters	\$ 75.00	\$ 375.00
8	Grocery Gondolas	400.00	3,200.00
	Bakery Shelving, 30 feet		300.00
	Grocery wall shelving, 74 feet		740.00
	Produce mirrored rack, 54 feet		1,000.00
	Storage room equipment, including tables, benches, trucks, tools		500.00
	Store display equipment, including tables, racks, stands		500.00
2	Hobart coffee mills	165.75	331.50
5	Toledo computing scales	196.00	980.00
100	Nickel plated gliders	14.00	1,400.00
200	Wire baskets, for gliders	1.15	230.00
15	Baby Nestor gliders	19.80	297.00
	Neon "Star" exterior, 8 feet		750.00
	Turnstile		75.00
	Manager's office		50.00
	Bire meat say		490.00
	Meat grinder (chopper), Bire		352.75
	Steak machine (tenderizer)		170.00
	Meat slicer, Globe		867.00
	Meat processing room equipment; blocks, tables, platters, tools		700.00

TABLE III

Continued

5	C. V. Hill frozen food cases	715.00	3,575.00
5	York condensing units for frozen food cases, 3/4 horsepower	313.30	1,566.50
4	C. V. Hill dairy cases	536.00	2,144.00
2	York condensing units for dairy cases, 1 horsepower	409.50	819.00
5	C. V. Hill self-serve meat cases	710.00	3,550.00
2	York condensing units for meat cases, 1 1/2 horsepower	482.50	965.00
	Meat walk-in cooler, 12 by 20 feet		1,200.00
	York condensing units, for meat cooler, 2 horsepower		562.00
	Produce walk-in cooler, 6 by 8 feet (used)		250.00
	York condensing units, for produce cooler, 1 horsepower, (used)		200.00
	Airconditioning units, meat processing room, 3 horsepower		1,300.00
	Ice Cream freezing cabinet		<u>375.00</u>
	Total cost for equipping Star Market Number 23		\$35,199.75

store. This leasehold cost estimate is based on the average leasehold costs as reported by Chain Store Age Magazine and presented in a pamphlet published by the National Association of Food Chains in connection with their September, 1953 convention. However, this estimate does not include the cost of air conditioning as was included in the NAFC study.⁶

e. Parking lot. The estimated cost of the parking lot (21,000 square feet) is \$11,500. This estimate includes the cost of black topping after grading has been completed, and is based on an average cost of 55 cents per square foot.⁷

The amount of parking space required for a particular super market location will vary in accordance to the proportion of customers arriving by automobile. A ratio of four square feet of parking space to one square foot of store sales area is now a generally accepted standard when one hundred percent of the customers arrive by automobile. When fifty percent of the trade arrive by automobile, the ratio drops to two to one.⁸ In the above estimate we have split the difference between the two extremes and used a ratio of three to one.

f. Working cash. It is estimated that each market will require an initial working cash balance of \$7,000 of which

⁶ National Association of Food Chains. Op. cit.

⁷ Ibid.

⁸ Anon. "Here's Help in Deciding Space Needed for Parking." National Grocers Bulletin, 29, February, 1952. p. 60.

\$3,000 should be considered a special fund of cash. This fund can be drawn on in the event that a period of time is required for the super market to achieve its budgeted objective of \$10,000 per week volume.

Generally speaking, cash on hand equal to 10 to 20 percent of the total current assets is sufficient for a retail grocery store. This amount should be only enough to meet daily needs and to provide some reserve for emergencies. Carrying a larger cash balance would not be profitable since idle cash is not producing a return and cash turnover is just as vital to good operation as inventory turnover.⁹

g. Summary of requirements.

	<u>One Store</u>	<u>Ten Stores</u>
Building	\$55,000	\$550,000
Land	15,000	150,000
Equipment	40,000	400,000
Inventory	22,000	220,000
Leasehold	5,000	50,000
Parking Lot	11,500	115,000
Working Cash	7,000	70,000
Total	<u>\$155,500</u>	<u>\$1,555,000</u>

⁹Miller, Nelson A., Harvey W. Huegy, and Associates. "Establishing and Operating a Grocery Store." United States Department of Commerce. Bureau of Foreign and Domestic Commerce. Washington, D. C. Series No. 21, p. 72.

C. Financial Organizational Structure

1. Corporate Organization

It is apparent that the function of financing and controlling a group of stores such as proposed in this thesis must be handled by a corporation. The average wholesale grocer neither has the financial resources, the experience in retail operation, nor the trained manpower to undertake individually the financing and control of an expanding group of super markets.

Therefore, this thesis has been written advocating the organization of a specialized corporation by interested wholesalers, the purpose of which would be the providing of funds for financing and the organization for control of an initial minimum group of ten super markets. It can be argued that, as soon as the initial ten stores are established on a profitable basis and as soon as the initial investments are amortized to a point enabling further investment in new stores, new stores should be established as rapidly as is feasible.

a. Financial organization. It is advocated here that the proposed new corporation select a suitable name and that it be incorporated with \$420,000 worth of common stock to be purchased in equal quantities by five cooperating wholesale grocers (\$84,000 each). Should additional wholesalers be interested in participation, an additional investment of

\$84,000 would be required of each participating wholesaler and the overall plan could then be expanded to include two more stores for each additional wholesaler stockholder.

The point should be made here that while to some wholesalers this might seem a large investment, actually approximately \$40,000 of the \$84,000 invested would be paid back to the individual wholesalers in return for the initial retail grocery stock for the initial two stores opened in his territory.

While not having a direct bearing on the purpose of this thesis, it is suggested that the various wholesalers involved might wish to mortgage a portion of their fixed assets for the purpose of securing initial investment funds.

b. Staff organization. Upon completion of corporate organization, steps should be taken immediately to provide a staff for the new corporation. A general manager and comptroller should be hired as soon as possible and two supervisors, an advertising manager, and secretaries as the need demands. Adequate office facilities should be provided.

c. Building construction and lease agreements. Upon the completion of corporate organization, the new general manager should take immediate steps in picking desirable locations and providing building specifications for stores in each wholesaler-stockholder's territories.

Efforts should be made to secure local financial backing for the purchase of land and erection of buildings. Local

investors should be offered the security of a ten year lease with the Company as lessee, with a guarantee of \$815.00 per month rent against a one percent of gross store sales. The reasonableness of this rental figure versus investment of the investor (\$81,500--covering land, building, parking lot) was checked by personal conference with a large finance company which is at present engaged in building super markets for various independents and chains.

The general manager of the new company should be prepared to assist local investors with mortgage arrangements which they may require in financing building construction.

Inasmuch as the new Company being proposed will not have had a history of operations, it may be necessary in the case of the initial group of stores, that the individual wholesaler-stockholders guarantee the leases of those stores located within the individual wholesaler's territory. This may also be necessary to enable the local investor or the specialized investor mentioned below, to secure adequate mortgage arrangements to enable them to complete the erection of the store buildings.

Should local financing be unobtainable, contact could be made with specialized real estate financing organizations for the purpose of securing the necessary investments in building and land on a net lease basis. Such firms can be found operating in most large cities. An example of this type of firm is the Atlas Finance Company, Detroit, Michigan. It would be

desirable to secure a firm with experience in supplying buildings previously for chain or independent super market operators.

When negotiating either with local investors or with a realty firm for new buildings, complete building specifications should be in hand, together with estimated operating figures and other information, as outlined in a later section of this study.

A suggested primary lease agreement appears in Appendix C, on page 104, of this thesis.

d. Additional capital requirements. In consideration of the fact that the financial requirements of this proposal are not amply covered by the initial stockholders' investment of \$420,000, plus the arrangements made for building constructions and lease, the need for additional capital becomes apparent.

A review of the financial requirements and the degree of their fulfillment by arrangements already suggested is given on the next page. However, before taking a look at this breakdown, mention should be made of two items included in this listing that have not been previously mentioned.

Organizational cost. You will note that an item of \$40,000 is included as organizational cost. The term organizational cost as used here refers to the cost of organizing this development program and includes such items as legal fees, investigation costs, organization taxes, and salaries and expenses of the new Company's general manager and other

required employees until such a time as the overhead cost of the new controlling corporation is on a self-sustaining basis.

It is, of course, assumed that it would be impossible to get all of the ten stores proposed into operation at the same time. Thus it would be necessary to provide a fund to be drawn on during the period between corporate organization and the time when all the proposed ten stores are in full operation.

Corporation cash reserve. The second item included, but not previously mentioned, is an item listed as corporation cash reserve. This item is included in order to provide the Company with a financial cushion against any unforeseen emergencies. A special cash reserve of \$10,000 should be budgeted for this purpose.

A chart on the next page shows the corporate financial requirements.

	<u>Corporate Financial Requirements</u>	<u>Degree of Proposed Fulfillment Thus Far</u>
Buildings (10)	\$550,000	Secured through lease arrangements with investors.
Land (10 plots)	150,000	Same as above.
Parking Lots	115,000	Same as above.
Inventory	220,000	Loans to operators by Company from stockholders' investments.
Leasehold	50,000	Same as above.
Market Cash Requirements	70,000	Manager to be supplied by market owners.
Organizational Cost	40,000	From stockholders' investments.
Corporation Cash Reserve	10,000	From stockholders' investments.
Equipment	400,000	???

From the summary on the preceding page it can be seen that all the financial requirements of this proposal have been considered and provision made to cover these requirements, with the exception of equipment costs. It can also be seen from this summary that, of the original proposed \$420,000 wholesaler-stockholders' investment, a total of \$320,000 will have been required to meet various requirements other than equipment of the ten stores, leaving only \$100,000 available to meet equipment costs of \$400,000.

e. Methods of meeting capital deficiency. There are two major methods whereby this capital deficiency of \$300,000 can be met without additional stockholder investment. First and most preferable method of meeting this deficiency would be to negotiate a term loan for the required amount with a commercial bank or other suitable lending agency. The steps to be taken in this procedure will be discussed in the next section of this study.

A second method, but a more costly method, would be to negotiate a short term loan with a commercial bank or other source for approximately \$33,000. This amount, coupled with the available remaining \$100,000 of stockholders' investment, would provide the necessary funds to make a one-third down payment on \$400,000 worth of fixtures and the balance could be financed over a four year period by the equipment company supplying the fixtures.

With a stockholder equity base of \$400,000 little difficulty would be encountered in securing a short term loan of \$33,000, and the balance of the equipment financing could be handled by the equipment company. However, the cost of this method of financing could easily run as high as seven percent; whereas, if a term loan could be secured the costs of financing might well be reduced to as low as four and one-half percent and the payments spread over a much longer period thus reducing the financial pressure on the new Company over its first few years of operations.

In the light of these facts it is recommended that every effort be made to secure a term loan in the amount of \$300,000 to cover the Company's capital deficiency. Financial exhibits used in this thesis are based on the assumption that such a loan is secured.

f. Procedure in securing term loan. The first steps to be taken in contemplation of applying for a term loan is to survey the various sources to assure the lowest possible interest rate. The principle is the same as in buying groceries: "Compare before you buy." If difficulty should be encountered in discovering satisfactory commercial bank sources for a term loan, consideration should be given to applying for a loan through the Small Business Administration of the Department of Commerce, the successor to the Reconstruction Finance Company. Recent rulings make it possible

for small business to secure government loans when other sources for reasonable loans aren't available.¹⁰

Regardless of the loan agency considering the Company's loan application they will be interested in the general industry outlook and its past record of performance.

In presenting this information, it is recommended that Survey Number Eight of Dun and Bradstreet, Incorporated, on Grocery Store Operating Results¹¹ should be offered for inspection. This survey shows a high percentage of super markets with net profit on sales before taxes of over four percent and net profit on net worth of over 30 percent.

Another survey showing operating results of a large number of markets is the one prepared by Ray Harb of the Red and White Corporation, covering operating results of over 1,000 Red and White stores.¹² It is interesting to note that many markets of the type considered here had returns on investment of over 40 percent a year.

As an indication of the feeling on the part of well informed investors, it should be noted that the famous

¹⁰Small Business Administration, "Public Statement of Loan Policy--Explanation of Loan Procedures." United States Department of Commerce. Washington: December, 1953.

¹¹Tebeau, Robert L. "Cost of Doing Business--Grocery and Meat Stores." Dun and Bradstreet, Incorporated, New York: Survey No. 8, 1952. 4 pp.

¹²Harb, Ray. "How Red and White Compares to the Industry." Red and White News. Chicago: May, 1952. pp. 17.

economist Roger Babson, in a personal letter to the writer, stated that super markets "are the most attractive merchandising investment at the present time."

Another factor in the food industry outlook is the fact that the United States' population is rapidly increasing. An article appearing in a recent issue of the Grocer's Spotlight pointed out that as the population of the nation grows, the business of the food man likewise grows.¹³ The implication here is that although there are many new markets going up it takes a lot of new markets to keep pace with our growing population. The nation's population has jumped to 161,100,000, an increase of 9,968,000 since the 1950 census. Births alone reached almost 4,000,000 in 1953.

Another point of information regarding the industry outlook is to consider how other super markets opened during the past year have fared. Super Market Institute, a trade association, makes regular yearly surveys of operating results of their members and the latest studies should be at hand when making loan application. For example, Curt Kornblau, research director of SMI, recently reported that in his study of super markets opened between January and September of 1953, it was found that three out of four of these stores are doing better than \$1,000,000 annually, with 29 percent of them doing more

¹³ Anon. "United States Population Now 161 Million." Grocer's Spotlight. March 12, 1954. p. 2.

than \$2,000,000 annually with a "satisfactory net profit."¹⁴

Along with the information on the industry outlook, various loan sources would require specific risk substantiation of the loan under consideration.

While no doubt the officers of the proposed new Company would be familiar with the necessary requirements to be met in applying for the recommended term loan (or even for short term loans), it might be well to review the necessary steps in the procedure and supply projected financial data based on this specific proposal to substantiate the application for a loan.

- (1) In applying for a loan it is necessary to establish the personal character background and financial responsibility of the major corporation stockholders.
- (2) There must be evidence that the new corporation personnel has the ability to operate the business on a sound basis. In this connection it will be necessary to present the work record of the new Company's general manager as well as an outline of the abilities of the proposed store managers.
- (3) The prospects of the new enterprise must indicate sufficient probable income to enable the Company to repay the loan out of future income of realizable

¹⁴Anon. "SMI Survey Encouraging." Grocer's Spotlight. Detroit: March 22, 1954. p. 1.

assets in the business. This will necessitate the presentation of an Operating and Capital Budget for the individual stores plus a statement of the Company's proprietorship investment.

Information sufficient to provide a proforma statement of proprietorship investment has been given earlier in this study. An estimated Operating and Capital Budget for one store is presented on pages 64-68. A composite budget for ten stores can be made by extending the figures ten times.

The figures contained in the budget on pages 64-68 represent reliable, conservative estimates based upon average Dun and Bradstreet figures secured from a study of 260 food stores and referred to earlier in this study.¹⁵

The Dun and Bradstreet figures were cross-checked for accuracy with the comparative operating results of over 1,000 Red and White Food Stores in the study also previously mentioned.¹⁶ Numerous other checks were employed to assure maximum accuracy of the estimates presented.

The Operating and Capital Budget figures on pages 64-68 are presented under section "Procedure in securing term loan," since they would be required in the application for a term loan. However, these figures should be available in negotiating for buildings and lease arrangement and certainly should

¹⁵Tebeau. Op. cit.

¹⁶Harb. Op. cit.

be of specific interest also to the new proposed common stockholders and prospective new manager-owners.

The Operating and Capital Budget is presented as Exhibit 6.

In looking at this budget it should be kept in mind that all the estimates made have been made on the conservative side, as can be seen by the figure showing 22.4 percent return on investment. A 40 percent return on investment for this type of operation is quite common.¹⁷

Another fact to be kept in mind is that the budget is based on a conservative sales estimate of \$10,000 per week whereas the markets proposed are of a size capable of a \$20,000 per week volume and it should be hoped that the sales volume would at least eventually average \$15,000 per week. Such a volume would greatly reduce a number of the expense ratios thus increasing the net profit sharply.

It is to be noted that the gross margin estimate is 17.15 percent whereas the average for super markets in 1953, as reported by Super Market Merchandising Magazine, was 18.35 percent.¹⁸ This same study points out that gross margins climbed from 17.87 percent in 1952 to 18.35 percent in 1953. Thus it can be seen again that the gross margin estimate used in the Operating and Capital Budget has been figured on the conservative side.

¹⁷Harb. Op. cit.

¹⁸Anon. "Industry Proud of '53 Record." Super Market Merchandising. New York: Vol. 19, No. 8, August, 1954. p. 35.

EXHIBIT 6
PROPOSED SUPER MARKET
OPERATING AND CAPITAL BUDGET

1. POTENTIAL MAXIMUM SALES:

5,600 square feet selling area at \$3.00 per square foot =
\$16,800

2. ESTIMATED PROBABLE NET SALES:

10,000 Population of Area at \$5.00 = \$50,000 \$10,000
100.0%

(Reasonable percent can expect of total 20% = \$10,000)

3. Gross Margin Estimate: \$17.15

<u>Department</u>		<u>\$Sales</u>	<u>%Gross</u>	<u>\$Gross</u>
Meat	(25%)	\$2,500	18	\$450
Produce	(10%)	1,000	24	240
Bakery	(5%)	500	16	80
Dairy	(9%)	900	15	135
Groceries	(39%)	3,900	14½	566
Non-Food	(4%)	400	25	100
Frozen Food and		800	18	144
Ice Cream	(8%)			

4. TOTAL	\$1,715
5. Expense (from Item 9)	<u>1,417</u>
6. Net Profit	\$ 298

7. TOTAL ESTIMATED CAPITAL INVESTED (except real estate)
(from Item 21) \$69,000

8. ESTIMATED RETURN ON CAPITAL INVESTED

\$298 (Item 6)	x 52	\$15,496	
			=
\$45,000 (Item 7)		\$69,000	<u>22.4%</u>

EXHIBIT 6

Continued

9. EXPENSES BUDGET

<u>Item</u>	<u>Maximum Percent</u>	<u>Amount</u>
Advertising	.6%	\$ 60.00
Bookkeeping Service	.2	20.00
Depreciation (F & E)	.9	90.00
Insurance	.2	20.00
Rent	1.88	188.00
Supplies	.67	67.00
Taxes	.33	33.00
Utilities	.7	70.00
Wages (Schedule A)	6.7	670.00
Management Salary	1.2	120.00
Miscellaneous	.69	69.00
TOTAL EXPENSES	14.17%	\$1,417.00
	(To Item 5, Sheet 1)	

SCHEDULE A10. DETAIL OF WAGES

	<u>Number</u>	<u>Wages</u>	<u>Total</u>
Assistant Manager (M)	1	\$ 70.00	\$ 70.00
Clerk (M)	1	60.00	60.00
Full Time Checker (F)	1	50.00	50.00
Part Time Checker (F)	1	30.00	30.00
Part Time Clerks (M)	2	25.00	50.00
Meat Manager (M)	1	100.00	100.00
Journeyman (M)	1	80.00	80.00
Part Time Wrappers (F)	2	30.00	60.00
Produce Manager (M)	1	80.00	80.00
Part Time Produce Clerk (F)	1	40.00	40.00
Dairy and Frozen Food Clerk (M)	1	50.00	50.00
			\$670.00

Estimated sales per full time employee \$50,000 per year.

Estimated sales per man hour \$18.30.¹⁹

¹⁹Dipman, Carl. Op. cit.

EXHIBIT 6

Continued

ESTIMATED CAPITAL REQUIREMENTS

(Specific Item Estimate Omitted--
due to variance in bids--
See Total Estimate.)

EQUIPMENT AND FIXTURES

11. MEAT DEPARTMENT

Walk-In-Boy (\$3.50 --\$4.50 sq. ft.)	\$	_____
Service Cases (\$32.50 sq. ft.)	\$	_____
Self Service Cases (\$40.00 sq. ft.)	\$	_____
Fish & Poultry Cases (25.00 sq. ft.)	\$	_____
Blocks & Benches	\$	_____
Power Saw	\$	_____
Grinder	\$	_____
Slicer	\$	_____
Cube Machine	\$	_____
Scales	\$	_____
Tools & Supplies	\$	_____
Price Tags	\$	_____

TOTAL MEAT DEPARTMENT

\$ _____

12. OTHER PERISHABLE DEPARTMENT

Produce Cooler	\$	_____
Refrigerated Produce Cases	\$	_____
Dry Produce Cases	\$	_____
Produce Stands & Islands	\$	_____
Price Tags	\$	_____
Scales	\$	_____
Tools & supplies	\$	_____
Dairy Cases	\$	_____
Frozen Food Cases	\$	_____
Ice Cream Cabinets	\$	_____
Produce Truck	\$	_____

TOTAL PERISHABLE DEPARTMENT

\$ _____

EXHIBIT 6

Continued

13. GROCERY AND NON-FOOD DEPARTMENT

_____	Feet of Wall Shelving	\$_____
_____	Feet of Gondolas	\$_____
_____	Feet of Bakery Unit	\$_____
_____	Feet of Drug Shelving	\$_____
_____	Feet of Check-out Counters	\$_____
_____	Cash Registers	\$_____
_____	Candy & Tobacco Unit	\$_____
_____	Coffee Mills	\$_____
_____	Scales	\$_____
_____	Dump Islands	\$_____
_____	Tote Carts	\$_____
_____	Stocking Cart	\$_____
_____	Carry-out Cart	\$_____
_____	Feet Price Tag Moulding	\$_____
_____	Price Tags	\$_____
_____	Pricing Stamp Sets	\$_____
_____	Tools	\$_____
TOTAL GROCERY DEPARTMENT		\$_____

14. OFFICE EQUIPMENT

_____	Desk & Chair	\$_____
_____	Adding Machines	\$_____
_____	Safe	\$_____
_____		\$_____
_____		\$_____
TOTAL OFFICE EQUIPMENT		\$_____

15. SUPPLIES

_____	Linen	\$_____
_____	Garments	\$_____
_____	Wrapping & Packaging	\$_____
TOTAL SUPPLIES		\$_____

16. TOTAL EQUIPMENT AND FIXTURES

\$40,000

EXHIBIT 6

Continued

17. INVENTORY

Grocery	\$19,700
Meat	1,800
Produce	500

18. TOTAL INVENTORY REQUIREMENTS	\$22,000
----------------------------------	----------

19. GRAND OPENING CASH REQUIREMENTS	4,000
-------------------------------------	-------

20. SPECIAL CASH RESERVE	3,000
(Fund for use until break-even point is reached.)	

21. TOTAL CAPITAL REQUIREMENTS	<u>\$69,000</u>
--------------------------------	-----------------

(To Item 7)

A final step in the procedure relating to a term loan is the provision made for loan amortization.

As previously mentioned, the term loan should be secured on a five year basis to be repaid out of profits. These payments could be made in equal installments together with interest. The actual loan or loans should, if possible, be secured as needed against a pre-established line of credit.

An estimated Company quarterly Income and Expense Budget is given on the next page, showing loan amortization and future profit potential of the business per quarter.

This estimate is presented as Exhibit 7, on page 70.

In looking at the Company Income and Expense Budget it should be kept in mind that the notes payable figure of \$18,375 is the first quarterly payment due on the recommended term loan of \$300,000. Future quarterly payments would be progressively reduced as the interest figure goes down with a reduced loan balance.

The wage expense figure is based on the following Company wage estimate:

General Manager	\$200.00 per week
Meat Supervisor	150.00
Grocery and Produce Supervisor	150.00
Comptroller	150.00
Secretary	50.00

EXHIBIT 7

ESTIMATED COMPANY INCOME AND EXPENSES PER QUARTER

(Basis Ten Stores)

	<u>First Five Years</u> (While Company Amortizes Loan)	<u>After Company</u> <u>Completes Loan</u> <u>Payments</u>
<u>Receipts</u> for Guidance, Supervision and Advise in lieu of interest (50 percent of store's net profits)	\$19,370	\$19,370
<u>Notes Receivable</u> (from Owners- 50 percent of store's taxable net profits after taxes) (see footnote)	15,090	15,090
<u>Accounts Receivable</u>		
Rent	24,450	24,450
Accounting Service	<u>2,600</u>	<u>2,600</u>
Total Quarterly Income	\$61,510	\$61,510
<u>Estimated Company Expenses</u>		
Rent on Leases	24,450	24,450
Wages	9,100	9,100
Office Expense	1,300	1,300
Miscellaneous Expense	<u>1,300</u>	<u>1,300</u>
Total Quarterly Expense	\$36,150	\$36,150
Estimated Notes Payable	<u>18,375</u>	<u>00,000</u>
Total Quarterly Liabilities	\$54,525	\$36,150
<u>Estimated Quarterly Net Surplus</u>	<u>6,985</u>	<u>25,360</u>

Note: It should be noted that 50 percent of the "book profits" shown on the individual store's Operating and Capital Budget are actually taxable as expenses since 50 percent of the profits are paid to the Company in lieu of interest and supervision. This explains the difference between the two figures as shown under Receipts and Notes Receivable.

While not presented as a part of this thesis, it is recommended that one of the first jobs to be undertaken by the new comptroller to be hired by the Company would be the preparation of a Cash Budget which would reflect the cash requirements based on the schedule of store openings. Such a cash budget would reveal the opportune time and in what quantities loans should be taken.

D. Sub-Lease and Control Agreements with Operators

As was brought out in the first paragraph of this chapter, the management of the proposed stores both at the top level and at the store level must be of high competence.

This section deals with the agreements made by the Company with the operators. Upon these agreements depends to a great extent the success of the entire development. The arrangements made with the owner-operators must be of a nature that will attract the highest type of men to lease and operate the stores. Also, the arrangements made must not only be of a type to attract and inspire owner-operators, but they must protect the interests of the Company and its stockholders to a maximum degree.

The agreements made by the Company with the owner-operators must cover three important areas: store lease, finance and control, and other miscellaneous contractual controls.

A suggested Sub-Lease agreement is included at the end of this thesis as Appendix D, on pages 108-111.

Rather than deal with each of the elements involved in finance and control and other suggested contractual controls individually, Exhibit 8 is presented on pages 73-79 which is a suggested Operating Agreement between the Company and the owner-operators covering all the necessary elements of control and financing pertaining to this proposal.

E. Disadvantages of This Proposal

1. The initial capital investment of the wholesaler-stockholders will not begin to yield major realizable cash returns for the first five years since, while the estimated earnings of the Company per year for the first five years is at the rate of six percent plus on the \$420,000 common stock, it may be anticipated that a considerable portion of these estimated earnings will be required to continue to build and expand the Company.

2. Because of the intricacies of this proposal, particularly as to its financial structure and retail control procedures, wholesalers, not familiar with retail operations and group control in particular, must of necessity depend upon the corporation's general manager to a great extent for accurate analysis of the plan's operations.

3. This thesis has not detailed the question of allowances for possible failure of one or more markets in the group and the possible effect on the Company's financial structure if such failures did occur. A detailed analysis

EXHIBIT 8
OPERATING AGREEMENT

AGREEMENT made this _____ day of _____, 19____
by and between _____ of _____
_____ (hereinafter called the "OWNER") and AFD
Supermarket Development Corporation, a Michigan Corporation
having its principal office at Pontiac, Michigan, (herein-
after called the "COMPANY")

WHEREAS, the Company is the lessee of certain premises
situated at _____ which the Owner
desires to sub-lease, and

WHEREAS, the Owner proposed to establish upon said
premises a Retail Food Market and in connection therewith
will require financing, guidance and advice in the develop-
ment and operation thereof, and

WHEREAS, the Company is willing to provide a portion of
the financing, supervision, guidance, and advice so required,
upon the terms and conditions hereinafter provided,

NOW, THEREFORE, the parties agree together as follows:

1. The Company agrees to sub-lease to the Owner and the
Owner agrees to hire and take from the Company the premises
known as No. _____ St. _____ for a
period of _____ years at a monthly rental of \$815.00,
against a one percent of gross store sales in accordance with
the terms and provisions of the Lease Agreement hereto attached.

EXHIBIT 8

Continued

2. Owner agrees that he will hold and occupy said premises only as a sub-tenant of the Company and that he will not during the period of this agreement nor for a period of five years after any termination hereof acquire any other interest in said premises by purchase, lease or otherwise without the prior written consent of the Company.

3. Owner covenants and agrees that he will operate the business of a Retail Food Market established on said premises during the period of this agreement as sole owner and proprietor; that he has cash capital of not less than \$7,000, which he will invest and keep invested in the business; that he will devote his full time and effort to the management and conduct of the business and that he will promptly pay any and all wages, taxes and other expenses whatsoever of or connected with the business.

4. The Company agrees to loan to the Owner on a demand note, without interest, the sum of \$62,000, to enable Owner to make payment in full for merchandise to stock store, and purchase store equipment. Owner agrees to repay the said loan, and not to borrow from any other source without the written consent of the Company. Owner further agrees that until all loans have been repaid in full to the Company, he will not withdraw more than \$120 per week against a 1.2 percent of gross sales from the business. Should sales exceed the

EXHIBIT 8

Continued

budgeted \$130,000 for the previous quarter an additional bonus may be withdrawn up to and for the quarter not to exceed 1.2 percent of gross store sales. Owner further agrees to deposit all receipts of the business daily at _____ Bank, and to withdraw such funds from the bank only for use in operating the business and as permitted by this agreement.

5. Owner agrees to purchase original fixtures and equipment for the store and any additions thereto only as approved and assisted by the Company.

6. The Owner will purchase his requirements of food products, as well as supplies and non-food items, from the local wholesale sponsor insofar as available.

7. The Company agrees to provide the Owner with guidance, supervision and advice in the operation of his business, including painting, selection and lay-out of shelving, equipment and fixtures, selection and display of merchandise, supervision of inventories and general store plans, merchandising, operations and suggestions. For such guidance, supervision, and advice, and also in lieu of interest on the sums loaned by the Company, Owner agrees to pay to the Company until all such loans are repaid in full, a sum equal to fifty (50) percent of the net profits of the business after all proper expenses, (except guidance, supervision, and advisory fees) of the business have been deducted and payments made on fixtures.

EXHIBIT 8

Continued

8. Owner agrees to spend not less than .6 percent of budgeted or actual sales volume (whichever is higher) on advertising only as approved by the Company. Part of such expenditures to be on pro-rata basis with other Super Markets in the sponsored group for group advertising at both territory and local level including newspaper, magazine, radio, television, window poster, demonstrations, display material, coupon and special pack activities as approved by the Company. Balance to be used at store and neighborhood level to aggressively build volume of store and to supplement group advertising activities.

9. The Company and the Owner mutually agree that up to \$1,000 of the working capital of the business be used for advertising and promoting the Grand Opening of the store and extra advertising and promotions during the first few weeks of operation of the business.

10. Owner agrees to keep accurate and adequate records of the business to the complete satisfaction of the Company, to make a weekly report to the Company on sales, cash on hand and in bank, accounts payable and such other facts as the Company may request, to take a physical inventory each quarter in each year under direct supervision of the Company, and to make all records, et cetera, readily available for inspection by the Company at any time. The Company agrees

EXHIBIT 8

Continued

to provide an adequate bookkeeping system, together with statistical reports, et cetera, so that the Owner can know the exact position of his business at regular quarterly intervals. The Owner agrees to pay to the Company for such service, the sum of \$20 per week, which shall be considered an expense of the business.

11. Within one week after the completion of the quarterly inventories and the statistical reports showing the condition of the business and the profits thereof during the previous quarter, Owner agrees to pay to the Company its fee for guidance, et cetera, as provided under paragraph eight of this agreement, and also to pay to the Company, to apply on the amounts loaned, the balance of the net profits of the business less the amounts properly withdrawn on his drawing account.

12. Owner agrees to keep all stock, fixtures, and equipment fully covered by insurance at all times to the complete satisfaction of the Company, and to carry such further insurance as the Company may require. All such insurance shall be placed with insurance companies approved by the Company. All premiums and insurance expense shall be considered an expense of the business. Owner further agrees not to permit any lien, judgment or attachment upon any of the assets of the business and to discharge and remove the same immediately if one should

EXHIBIT 8

Continued

attach, provided, however, that nothing herein shall prevent the Owner from legally contesting any claim to which he believes he has a good defense.

13. When the Owner has repaid to the Company in full all loans made in connection herewith, paragraph seven of this agreement shall be deemed modified to provide that the Owner shall pay to the Company for its guidance, supervision and advice, a sum equal to one percent of the total retail sales volume of the business, paragraph 11 shall be modified accordingly, paragraph four shall be of no further force or effect and all other terms and conditions of this agreement shall remain in full force and effect.

14. Owner agrees that he will not sell, assign, or transfer or attempt to sell, assign, or transfer this agreement or this lease of the premises without the written consent of the Company, and any purported sale, assignment, or transfer without such consent shall be void.

15. This agreement and the sub-lease referred to in paragraph one hereof may be terminated by either party, with or without any specific reason, upon 30 days written notice. In the event of a breach, violation, or failure of performance by the Owner of any of the covenants or agreements to be performed by him hereunder or under the sub-lease referred to in paragraph one hereof, the Company, at its option, may

EXHIBIT 8

Continued

terminate this agreement and said sub-lease forthwith and may enter forthwith into possession of the property and business to which this agreement and said sub-lease relate. Upon any such termination, either with or without cause or notice, the Owner agrees to sell to the Company and the Company agrees to buy all fixtures and equipment of the business at book value (original cost less one percent per month depreciation from date of purchase), and all merchandise on hand at wholesale cost or current market, whichever is lower. Owner agrees to deliver Bill of Sale giving clear title to the Company, and to do everything necessary legally to complete the transaction. All accrued charges, service fees, loans, et cetera, shall become immediately payable on date of termination. The lease of the premises shall terminate simultaneously with the termination of this agreement.

IN WITNESS WHEREOF, the parties have caused this agreement to be duly executed the day and year first above written.

SUPER MARKET DEVELOPMENT CORPORATION

By _____

Owner



of this problem would fall to the comptroller in charge of the proposed Company's financial affairs, if such a situation should befall the organization. However, it should be observed that the estimated earnings of the Company are large enough so that the Company could absorb the failure of one of the proposed stores without straining the financial structure of the Company.

4. Minute drawing up of the final details of this proposal may bring to light difficulties not seen from the general analysis of the proposal.

5. The financial plan for this proposal was predicated on the operation of ten stores. The Company budget only provides for \$40,000 to cover organizational costs. This means that the general manager and comptroller will have to work alone during the first few months of the development and that all ten stores will have to reach full scale operation within two years if the proposed budget is to be valid. This may be difficult but it is presumed possible in this thesis.

F. Advantages of This Proposal

1. Retailer

a. To the young aggressive Super Market manager, this proposal offers an opportunity to go into business "on his own" on a scale usually impossible due to the individual lack of sufficient funds.

b. The controls provided under this plan enable the retail manager to devote a greater percentage of his energies to actually merchandising his store without the usual extra headaches of doing his own advertising, keeping his books, checking competitive prices, et cetera.

2. Wholesaler

a. For each new Super Market opened in a wholesaler-stockholder's territory under this plan, the sponsoring wholesaler should realize sales of at least \$4,000 per week to the new market. This increase in volume should show the wholesaler an increased net profit in his wholesaling operation of at least \$2,000 per store sponsored. This represents about a five percent return on his original investment of \$84,000 which would enable the Company to sponsor two stores in his area. This return is, of course, only indirectly related to the actual investment in the new corporation and would actually represent increased earnings from his wholesaling business.

b. It would be possible, on the basis of the estimates submitted, by plowing back the major portion of the estimated corporation earnings into new markets and by renegotiating new term loans, to establish at least three new markets in each wholesaler-stockholder's territory over the first ten years of the Company's existence. This would mean an increased earned equity in the corporation of \$120,000 per wholesaler

and a yearly net profit on sales to the five sponsored markets of \$10,000 per year.

c. Participation in this new corporation would relieve the individual wholesaler of direct responsibilities that might otherwise fall on his shoulders if individual financing was undertaken without the assistance of an organization specifically designed for financing and controlling a group of stores.

CHAPTER IV

SUMMARY AND CONCLUSION

A. Summary of Proposal

This thesis has been written in an attempt to provide a solution to one of the basic problems of most independent wholesalers. This problem is: How can the individual wholesaler find ways and means of creating customers in the super market class and of directing their buying policies in favor of the supporting wholesaler? The purpose of this thesis is to make specific recommendations on methods of creating a super market finance and control organization to help solve this basic problem.

The material, used as a basis for this report, was secured primarily from personal and telephone interviews and supported by reference to the limited bibliographical materials available in this specialized field.

This investigation disclosed the major requirements that must be met if a financing and control organization is to be established.

It was determined that the best method of dealing with these requirements was the organization of a super market finance and control corporation for the purpose of arranging for the capital requirements and the supervision of an initial group of ten super markets.

The major technological requirements to put such a plan in operation are as follows:

1. Extreme care must be taken in the selection of both top level and store level management. The entire success or failure of the proposal rests with the competency of the executive personnel.

2. Location of stores must have business potential, appearance, and size that will make possible and probable from \$10,000 to \$20,000 per week volume.

3. Building specifications should make provision for interior selling space of not less than 5,000 square feet.

4. The control corporation must make available to the super markets assistance in the way of supervision, merchandising, advertising and accounting in order to relieve market managers of complicated detail, the responsibility for which would place an undue handicap on their competitive efforts against chain store managers not burdened with these functions.

The major financial requirements to put the proposed plan in operation are these:

1. Estimated land and building costs for one market of the type considered would be \$70,000.

2. Equipment costs for one market are estimated at \$40,000.

3. Inventory requirements for a market of the proposed size would be approximately \$22,000, including groceries, meat, and produce.

4. Leasehold would run around \$5,000 per market.
5. The paving and curbing of parking lot areas of 21,000 square feet is estimated at \$11,500 per store.
6. Normal cash requirements for a market doing \$10,000 per week is estimated at \$4,000. However, a special cash fund of \$3,000 should be available to draw on should there be a time lapse between the grand opening and the market reaching its budgeted sales volume.

The following recommendations are made to meet the basic organizational and control requirements of the proposal:

1. A Super Market Development Corporation should be incorporated with a minimum of five wholesalers sharing a common stock investment of \$420,000. The purpose of the new company would be to establish and provide a system of control for ten super markets (two for each wholesaler's territory) that are to be sublet to independent operators under strict contractual arrangements. A staff consisting of general manager, comptroller, two supervisors, advertising director, and one stenographer should be recruited.
2. Arrangements should be made with local investors, or a specialized realty firm, to build the markets under consideration in locations selected by the Company. These buildings are then to be leased to the Company at a rental of \$815 a month against a one percent of gross store sales.
3. A term loan of \$300,000 should be made by the Company with a suitable lending agency, in order to complete the

necessary funds to meet the working capital requirements.

4. Sub-lease and control agreements should be signed with the prospective new super market's owners. Such agreements, in addition to the market lease, should provide for a loan to the operator from the Company to meet his financial needs for inventory and equipment. The agreements should also cover the methods of supervision, financial control, buying policy control, equipment purchase, and basic loan amortization.

5. The major disadvantages to this proposal lie in the lack of immediate cash return on investments of stockholders; the lack of understanding on the part of wholesalers of the problems of financing and controlling a group of stores; the failure of this thesis to fully document the effects of a possible failure of one or more retail units; detailed development of the plan may reveal difficulties in the major theses; the time element in getting all stores in operation within a two year period may cause difficulty.

6. The major advantages of the proposal to the new market owners are that it will allow aggressive men to go into business on a scale not possible alone; the supervision provided will assist them in their competitive struggle for successful operation.

7. The major advantages of the proposal to the wholesale-stockholders lie in the fact that they will have controlled large volume outlets for their wholesaling services that will

yield major profits. Also, the potential profits to be realized over a period of time, directly on their investment in the new company, are large. Participation in a group effort of this type eliminates many of the problems that might be encountered, if individual financing and control be undertaken by wholesale members acting independently of each other.

B. Conclusion

The arrangements for real estate and equipment, the drawing of plans, and erection of buildings, and the borrowing of substantial sums of money is not enough.

First of all, one must have confidence--confidence in our business and confidence in the future of our communities. No method of financing is worth a "hoot" if super market operators and wholesale suppliers don't have the confidence to go ahead enlarging the industry and enlarging their own share in that industry. Before we plan for anything, we must believe in the things we are planning.

As a final comment it might be well to call to mind the motto of Nathan Cummings, the food industry's leading financier and chairman of the board of the Consolidated Grocery Corporation. Embossed on a metal plate in Mr. Cummings' office are these words: "Nothing will ever be attempted if all possible objections must first be overcome."

APPENDIX A

FICTITIOUS EXAMPLE OF THE APPLICATION OF THE GENERAL MOTORS HOLDING COMPANY AGENCY FINANCING PLAN TO THE FINANCING OF INDEPENDENTLY OWNED RETAIL SUPER MARKETS

AGREEMENT

AGREEMENT made this 15th day of September, 1950, by and between John Jones of East Lansing, Michigan, party of the first part, hereinafter called "Retailer," and R. F. Smith Company, a Michigan corporation, having principal offices in Branch County, Michigan, party of the second part, hereinafter called "Wholesaler,"

WHEREAS, the Retailer requires financing in the development of his retail grocery store and meat market to be operated at 14 East Hanson Boulevard, East Lansing, Michigan; and

WHEREAS, the Wholesaler desires to assist the Retailer in the development of such operation and is willing to provide the necessary financing upon the terms and conditions hereinafter provided,

NOW, THEREFORE, IT IS MUTUALLY AGREED as follows:

1. That the parties hereto will cause to be organized a Michigan corporation, to be named "Speede-Shop Market, Incorporated," having an authorized capital of \$30,000.00, consisting of 300 shares of common stock having a par value of \$100.00 per share.

2. That the Retailer shall enter into a subscription agreement with such corporation wherein he shall subscribe for 18 shares of the capital stock of the corporation for a cash consideration of \$1,800.00

3. That the Wholesaler shall enter into a subscription agreement with such corporation wherein it shall subscribe for 280 shares of the capital stock of the corporation for a cash consideration of \$28,000.00

4. That the Retailer and Wholesaler shall enter into a Stock-Purchase Agreement respecting the stock to be issued to the Wholesaler substantially in accordance with the form of agreement, a copy of which is attached hereto and marked "Exhibit A."

5. That the Wholesaler will vote the stock of the corporation standing in its name for the election of the Retailer and his nominees as directors of the corporation so long as the Retailer, in the opinion of the Wholesaler, is properly conducting the operation of the business of the corporation. The Wholesaler, however, shall be the sole judge of whether or not the operation thereof is proper.

6. The Retailer shall enter into an employment agreement with the corporation under which he shall agree to devote his full time to the active management of the business of the corporation at a salary of \$100.00 per week, such employment, however, shall be subject to termination by the Retailer or the corporation upon thirty days' notice. That

the Retailer shall also receive for his services fifty (50) percent of the net profit of the corporation, computed annually, based upon the fiscal year of the corporation, after provision shall have been made for the payment of a five percent dividend to outstanding stock of the corporation. Such sum shall be payable at the end of each fiscal year of the operation of the corporation, and the Retailer shall authorize the payment thereof directly to the First National Bank, to be retained under the provisions of the Stock Purchase Agreement, "Exhibit A."

7. The Wholesaler shall enter into an agreement with the corporation to provide guidance and counsel in connection with the operation of the business for which it shall receive for its services a sum equal to fifty percent (50) of the net profits of the corporation, computed annually upon the fiscal year of the corporation, after provision shall have been made for payment of a five percent dividend to outstanding stock of the corporation. Such sum shall be payable at the end of each fiscal year of the operation of the corporation.

8. The term "net profit," referred to in paragraphs six and seven of this agreement, shall be the profit of the corporation after provision for all depreciation, accrued taxes and other expense accruals, as computed by the accountant regularly employed by the company to audit its books of account and as appears by the corporation's statement of operations.

9. The Retailer shall not transfer, sell, assign or dispose of by gift or otherwise, the stock of the corporation standing in his name, without first offering to sell the same to the Wholesaler at the par value thereof. The Wholesaler shall have thirty (30) days after receipt of written notice by the Retailer within which to purchase such stock, and, if the Wholesaler shall not accept such offer within the period specified, the Retailer shall be free to sell such stock within a six months' period after such notice has been given. After such period, he shall again offer the same to the Wholesaler prior to any transfer thereof. There shall be written upon the stock certificates issued to the Retailer a statement that such certificate is held subject to an agreement between the holder and the Wholesaler under date of this agreement.

10. This agreement shall terminate upon the complete fulfillment of the terms and conditions of the Stock Purchase Agreement "Exhibit."

IN WITNESS WHEREOF, the Retailer has set his hand and seal and the Wholesaler has caused this agreement to be executed by its duly authorized officer the day and year first above written.

_____(SEAL)
Retailer

In Presence of:

R. F. SMITH COMPANY

By
Wholesaler

EXHIBIT A

STOCK PURCHASE AGREEMENT

AGREEMENT made this 15th day of September, 1950, between R. F. Smith Company, a Michigan corporation, having principal offices in Branch County, Michigan, hereinafter called the "Seller," and John Jones of East Lansing, Michigan, hereinafter called the "Buyer":

WHEREAS, the Seller is the owner of 280 shares of authorized and issued capital stock of Speede-Shop Market, Incorporated, a Michigan corporation, hereinafter called the Company; and

WHEREAS, the Purchaser desires to purchase from the Seller all of such stock, which the Seller is willing to sell:

IT IS THEREFORE MUTUALLY AGREED:

1. The Seller shall sell and the Purchaser shall buy 280 shares of the capital stock of the Company now owned and held by the Seller for a total purchase price of \$28,000.00

2. The Purchaser shall cause to be deposited with the First National Bank, Escrow Agent, in a special Trust Savings Stock Purchase Account fifty percent (50) of the net profits of the Speede-Shop Market, Incorporated, payable to him as provided under agreement dated September 15, 1950, between the parties hereto, less such sum as shall be required by the Buyer for payment of the income taxes payable by him on such

income, which amount deposited shall be subject to withdrawal only upon written authority of the Seller and the Purchaser.

3. The Seller shall deposit with the First National Bank, Escrow Agent, the stock certificate or certificates representing the stock covered by this agreement, to be held by said Escrow Agent subject to payment for the same by the Purchaser as herein provided.

4. The Purchaser shall have the right to obtain an assignment and delivery to him from the stock held by the Escrow Agent at the end of any fiscal year of the Company shares of stock held by the Escrow Agent hereunder, in an aggregate amount of not to exceed One Hundred Thirty (130) shares, upon payment of to the Seller of the sum of One Hundred Dollars (\$100.00) per share for the shares to be released to him.

5. The remainder of the stock deposited by the Seller shall be retained by the Escrow Agent until the Purchaser shall pay to the Escrow Agent the balance of the purchase price hereunder. In the event that the purchase of the remainder of the shares shall be completed prior to the end of any fiscal year of the company, the Purchaser shall pay to the Seller, in addition to the purchase price hereinabove stated a sum equal to fifty percent (50) of the net profits of the company, after provision has been made for payment of a five percent dividend on outstanding stock, if earned and

for accrued taxes and expenses, computed to the date of the payment of the balance of the purchase price.

6. The funds paid to the Escrow Agent hereunder, less any charges made by the Escrow Agent, shall be retained by it for the sole purpose of payment of the purchase price of the stock deposited under this agreement and the Purchaser shall have the right to the use at any time of any amount held in the Trust Savings Stock Purchase Account for the purchase of any or all of the shares of stock held by the Escrow Agent hereunder in accordance with the term of this agreement.

7. In the event that the Purchaser shall not have completed the purchase of the stock hereunder within ten (10) years from the date hereof, or in the event of the bankruptcy or insolvency of the Purchaser determined by a court of competent jurisdiction, or in the event of his death during the term of this agreement if within ninety (90) days after his death funds are not made available by the legal representatives of the Purchaser to complete the purchase of the stock held hereunder, this agreement, at the option of the Seller, shall terminate and, upon the Escrow Agent receiving written notice from the Seller of such termination, the stock remaining in its possession shall be delivered forthwith to the Seller, free and clear of any further obligation hereunder, and the balance of the funds in the Trust Savings Stock Purchase Account, less any charges of the Escrow Agent, shall

be paid over to the Purchaser or his legal representatives, upon receipt of the Escrow Agent of satisfactory evidence to it of the right of such person to the fund.

8. The Seller shall at all times retain full voting rights to such stock as shall remain with the Escrow Agent, and shall be entitled to all dividends declared thereon.

9. All charges of the Escrow Agent hereunder shall be paid by the Purchaser and the Seller does hereby guarantee the payment thereof.

10. This agreement shall be binding upon and shall inure to the benefit of the parties, their legal representatives, successors and assigns.

R. F. SMITH COMPANY

In Presence of:

By _____

Seller

Purchaser (SEAL)

The undersigned does hereby agree to act as Escrow Agent under the foregoing agreement and to be bound by the terms thereof in its capacity as Escrow Agent.

Dated _____, 1950

BRANCH STATE BANK

By _____

APPENDIX B

SOME SUGGESTED STORE OPERATION POLICIES FOR INDEPENDENT SUPER MARKETS

(Adapted from the Kroger Accounting Manual, Cincinnati, Ohio)

I. RECEIVING MERCHANDISE

1. It should be the store manager's job to maintain a special report on all merchandise received from his suppliers.
2. Be sure to check all merchandise received against the billing, or delivery ticket.
3. When you receive merchandise, report all overages and shortages promptly to your supplier.
4. When a driver delivers direct store delivery merchandise, check to make sure the merchandise specified on the ticket has been delivered. Make sure there is no damage. This must be done before the driver's ticket is receipted.
5. Over, Short, and Damaged Goods Delivered by Outside Carriers. When a carrier delivers merchandise that is short, over or damaged, have the driver make a note of acknowledgment on the freight bill or express delivery receipt. Make sure the driver signs this note. Information required in a note of this nature includes the following:
 - a. Shipment was short. Details of the shortage.

- b. Shipment contained damaged goods. Details of the damage.
- c. Shipment was refused. Reason, and time of refusal.

6. These noted freight, or express bills should be sent to your accountant along with the store's copy of the vendor's invoice for the merchandise in question.

II. SALE OF MATERIAL WHICH CAN BE USED TO MANUFACTURE ILLICIT LIQUOR

1. Federal regulations require grocery stores to report large sales of materials that may be used for illegal purposes. It isn't necessary to obtain evidence that these materials will be illegally used. You are merely required to place on record the fact that such sales have been made.

2. Store manager should report sales of dried fruits, yeast or sugar that are considered excessive for normal household use. Such sales may be in the form of one large order or frequent small orders. More than 100 pounds of sugar, for example, is considered a sale in excessive of normal household need.

3. The store manager should make his report on a local mimeograph form or letter. The date of sale, commodity, amount and the license number of the car used to haul away the merchandise should be included. The name and address of the customer should also be given, if available.

III. SHRINKAGE AND SPOILAGE CONTROL

Manager's Check List

Follow this list of precautions to avoid excessive shrinkage and spoilage in your store. It includes the main points necessary to guard against high loss.

1. Be absolutely certain that all merchandise you have receipted for is delivered into the store.
 - a. Check all deliveries carefully, thoroughly.
 - b. Take nothing for granted.
 - c. Demand clear, legible bills for all deliveries.
 - d. Report all shortages or overages promptly. On outside deliveries, get the driver's signature or get exception reports on all discrepancies in the delivery.
 - e. Handle all local purchases in strict accordance with company policy.
2. Be sure that all transfers from the store, and all returns to vendors are properly recorded. Demand that signatures be secured for all merchandise picked up.
3. Be certain that you receive cash for the full value of all merchandise sold. Make sure each transaction is correctly recorded on the cash register at the time of sale.
 - a. Insist that all merchandise sold be registered, before it leaves the store.
 - b. Don't allow the store personnel to total their personal purchases.

- c. Extend credit only to authorized charge accounts.
- d. Test checkers and sales clerks frequently for accuracy.
- e. Test checkers on use of scales.

4. Set high standards of store operation efficiency to protect merchandise from loss due to spoilage, theft, incorrect pricing, improper handling, and other risks.

- a. Demand careful handling of all merchandise.
- b. Demand careful rotation of all merchandise.
- c. Do not allow unauthorized reductions in retail price.
- d. Price merchandise correctly.
- e. Insist on careful and frequent attention to perishables.
- f. Store manager should keep the store keys in his possession. During store hours all doors, except the customer entrance, should be locked. They should be unlocked only when necessary for deliveries.
- g. Insist on prompt handling of price changes, and immediate, legible markings on cans and packages.
- h. Maintain the accuracy of all scales.
- i. Keep the premises free of roaches and rodents.
- j. Maintain accurate records.

5. Maintain honesty in your employees by constantly demanding 100 percent adherence to all policies and procedures.

IV. MEAT AND PRODUCE INVENTORY

1. A physical inventory of meat items should be taken as of the close of each period. The same holds true for produce.

2. If cash registers are cut off before the end of the day's business on Saturday, it is necessary to determine the sales made between the register cutoff time and the physical inventory. Record the amount of these sales as a separate item on the meat and produce inventories, as "sales after register cutoffs." Your accountant will increase your inventory to cover.

3. The store manager should be responsible for the accuracy of all meat and produce inventories. He should satisfy himself that a good inventory is being taken, and sign all inventories to indicate his confidence in their accuracy.

V. FIRE PREVENTION

If fire rages through your store, it means more than just the loss or damage of PROPERTY, JOBS, AND BUSINESS -- it may mean SERIOUS INJURY, OR LOSS OF HUMAN LIFE. Always be on guard against fire. For your own sake, be sure to take these simple daily precautions.

1. REMOVE ALL TRASH AND RUBBISH REGULARLY

2. KEEP ASHES AND FLOOR SWEEPINGS IN COVERED METAL CANS
AT ALL TIMES.

3. STACK MERCHANDISE AWAY FROM STOVES AND HEATERS.
4. PROVIDE ONE OR MORE SAND-FILLED BUCKETS (PAINTED YELLOW) FOR EXTINGUISHING CIGARETTES, INSIST THAT EMPLOYEES USE THESE BUCKETS.
5. INSIST THAT ALL SEALING IRONS BE DISCONNECTED AT CLOSING TIME BY PULLING OUT THE PLUG. MAKE SURE THERE'S AN INSULATED HOLDER FOR EACH IRON WHEN IT'S IN USE.
6. HAVE A TALK WITH EACH EMPLOYEE. EXPLAIN THE IMPORTANCE OF FIRE PREVENTION TO HIM AND HIS FELLOW WORKERS.
7. USE ONLY 15 AMPERE FUSES IN THE LIGHTING CIRCUITS. IF THEY BLOW REPEATEDLY, CALL AN ELECTRICIAN.
8. JUST BEFORE LEAVING THE STORE AT CLOSING TIME, MAKE A PERSONAL TOUR OF THE PREMISES TO MAKE SURE NO FIRE IS SMOLDERING.

VI. HOW TO HANDLE SALVAGE IN STORE FIRE LOSSES

If your store, or the merchandise inside is damaged by fire, smoke, or water, take the following action immediately.

FIRST: Notify your insurance company of the loss or damage at once.

SECOND: Protect both equipment and merchandise in order to prevent further damage from the elements, from pilferage, or from any other danger.

THIRD: Hold merchandise which has been damaged by smoke or

water but still has salvage value for a salvage company representative. UNDER NO CIRCUMSTANCES SHOULD ANY SALVAGE MERCHANDISE BE SOLD THROUGH THE STORE.

VII. STORE SAFETY

Safety is a vitally important part of your job as store manager. Develop a safety-conscience mind. Keep your store personnel on the alert against hazards. Remember that an orderly store is usually free of accidents.

1. KEEP AISLES FREE OF BOXES, CARTONS AND OTHER OBSTRUCTIONS.
2. KEEP FLOORS DRY AND FREE OF PRODUCE TRIMMINGS.
3. REMOVE NAILS AND SHARP EDGES FROM BASKETS, CRATES, BOXES.
4. REPORT TO YOUR LANDLORD PROMPTLY ANY HAZARDOUS CONDITIONS OF THE STORE BUILDING, SIDEWALK OR PARKING LOT.
5. SEE THAT KNIVES ARE ALWAYS PLACED IN THE RACK WHEN NOT IN USE.
6. KEEP STEPLADDERS IN SAFE CONDITION. IF ONE BREAKS, ORDER A NEW ONE.
7. TEACH EMPLOYEES THE RULES OF PROPER LIFTING.
8. DO NOT PERMIT EMPLOYEES TO USE MECHANICAL EQUIPMENT, UNLESS THEY HAVE BEEN PROPERLY AND THOROUGHLY INSTRUCTED IN ITS USE.

THINK SAFELY WORK SAFELY PLAY SAFELY

VIII. SAFE BURGLARY INSIDE AND OUTSIDE HOLD-UP

1. In store operation the risk of burglary and hold-up is always present. There's very little you can do, once a bandit or burglar gets into your store, but if you take the proper precautions in handling store cash, you can reduce the potential loss.

2. Every store manager is responsible for the cash in his store, and should do everything in his power to protect it.

3. Insurance Coverage. You should be insured against safe-burglary, and inside and outside hold-up on this basis:

- a. Instructions on the operation of store safes and the handling of cash should be adhered to rigidly before coverage is effective.
- b. The first \$500 of each loss is NOT generally covered by insurance.

4. When Loss Occurs. Notify the local police department immediately.

5. A store audit should be taken as quickly as possible to determine the loss.

APPENDIX C
SUGGESTED PRIMARY LEASE AGREEMENT

LEASE

Made and executed this ____ day of _____ 19 ____
between _____ of the _____
_____ and State of _____ hereinafter described
as the lessor, party of the first part, and _____
Street Address _____ City _____
State _____ hereinafter described as the lessee,
party of the second part.

In consideration of the rents and covenants hereinafter
expressed, the said lessor has demised and leased and does
hereby demise and lease to the lessee the following described
premises, vis: (Describe premises fully and if any personal
property is leased, attach a list of the personal property

with the privileges and appurtenances for and during the
term of _____ from the _____ day of _____ 19 ____,
which term will end _____.

And the said lessee covenants that it will pay to the
lessor for the use of said premises the sum of _____
Dollars (\$_____) in monthly payments of _____

1. The first part of the report deals with the general situation of the country and the progress of the work during the year. It is divided into two main sections: the first section deals with the general situation of the country and the progress of the work during the year, and the second section deals with the specific results of the work.

2. The second part of the report deals with the specific results of the work. It is divided into three main sections: the first section deals with the results of the work in the field of agriculture, the second section deals with the results of the work in the field of industry, and the third section deals with the results of the work in the field of commerce.

3. The third part of the report deals with the financial results of the work. It is divided into two main sections: the first section deals with the income of the work, and the second section deals with the expenditure of the work.

4. The fourth part of the report deals with the general conclusions of the work. It is divided into two main sections: the first section deals with the general conclusions of the work, and the second section deals with the specific conclusions of the work.

5. The fifth part of the report deals with the general recommendations of the work. It is divided into two main sections: the first section deals with the general recommendations of the work, and the second section deals with the specific recommendations of the work.

Dollars (\$_____) to be paid not later than the 15th day of each month.

And further, the said lessor covenants that it will at the end of each fiscal year bearing on this agreement review with the lessor the gross sales figure attained through sales made on the described premises the previous 12 months and should the total payment during the previous 12 months be less than one percent of said gross sales an additional payment will be made to the lessee by the lessor, bringing the total payment up to one percent of gross sales.

IT IS HEREBY MUTUALLY COVENANTED AND AGREED as follows: That in case the buildings or tenements on said premises shall be so destroyed or injured by fire so as to become untenable, then this lease shall become thereby terminated, if said lessee shall so elect, but in the event the lessor shall have insurance covering the said premises, and if the lessee, so desires, he shall rebuild same as quickly as possible and the lessee shall have the right of occupancy of the premises rebuilt upon their completion upon the same terms and conditions as herein expressed, but during such period as the property is not tenantable, it shall not be obliged to pay any rent therefor, but shall pay rent up to the time of the destruction or injury of said premises.

The lessor shall maintain the premises herein leased as required by the laws and rules of either the Health or Labor Departments of any city, town, or state in which the premises are located.

The lessor shall keep the premises and any property herein leased in a good tenantable and usable condition, and shall carry insurance, including plate glass, on same. The lessee shall not be responsible for any loss or damages to said premises or any property herein leased unless through its negligence or the negligence of its employees.

The lessee shall have the right to paint the property herein leased any color that it may desire and to put such signs in, on or about the premises and property as it desires.

The lessor hereby agrees to allow no groceries, canned goods, canned meats, butter, eggs, cheese, fresh fruits and vegetables, fresh or smoked meats of any nature or description to be sold in the block of buildings of which the store above described is a part, and that he will restrain anyone conducting a business in the building from carrying these particular commodities for the full period of this lease.

The lessor covenants and agrees that, upon the termination of this lease, the lessor will not rent or sell the premises herein demised to any subtenant of the lessee, for a period of five years from the date of the termination of this lease.

The lessee shall have the right to renew this lease for an additional period of _____ years, to begin on the expiration of the aforesaid leasehold rights, upon the same terms and conditions as herein expressed _____.

At the termination of this lease or any renewal thereof,
the lessor will give to the lessee the first right to the
further leasing of the premises on terms and conditions then
to be agreed upon, and in the event no written notice is
served to the contrary prior to the expiration of the leasehold
rights herein specified, said lease shall be automatically
renewed for the additional period aforementioned.

In the event the aforesaid leasehold property is mortgaged
and there is any default by the lessor in the payment of
interest or principal on said mortgage, or any default in the
payment of taxes on said premises, which default shall result
in any proceedings brought to foreclose any mortgage or sell
the property for taxes, the lessee shall have the right to
pay such interest, principal or taxes, and deduct same from
any rents that may thereafter become due and payable by it.
It being expressly understood, however, that there is no
obligation on the part of the lessee to make such payments.

WITNESS, The hands and seals of the said parties, the
day and year first above written.

WITNESSED BY _____ (L.S.) Lessor

WITNESSED BY _____ (L.S.) Lessee

Note: Should the premises being considered be in a shopping
center this lease should be further expanded to include
all the protective clauses relating to such a location.

APPENDIX D
SUGGESTED SUB-LEASE AGREEMENT
BETWEEN THE COMPANY AND STORE OWNER-OPERATOR

LEASE

Made and executed this _____ day of _____, 19____
between _____ Super Market Development Corpo-
ration, parties (lessee of the premises herein below described
under a lease dated the _____ day of _____, 19____, with
_____, Owner), party of the first part and
(Name) _____, Owner, (Address) _____.

In consideration of the rents and covenants hereinafter
expressed, the party of the first part has demised and sublet
and does hereby demise and sub-let to the party of the second
part for use as a grocery store and meat market the following
described premises, namely: (Describe premises fully and if
any personal property is leased, attach a list of the personal
property).

with the privileges and appurtenances for and during the term
of from the _____ day of _____, 19____, which
term will end.

And the said party of the second part covenants that it will pay to the party of the first part for the use of said premises the sum of nine thousand, seven hundred and eighty dollars (\$9,780) per year in monthly payments of eight hundred and fifteen dollars (\$815) to be paid not later than the first day of each month, against a one percent of gross store sales. It is further agreed that at the end of each fiscal year a cooperative review of an audit of the store's gross sales will be made and should the total rent paid the previous 12 months be less than one percent of gross store sales a supplemental payment will be deemed due to bring the total rent payment figure for the 12 months up to one percent of gross sales.

IT IS HEREBY MUTUALLY COVENANTED AND AGREED as follows: That in case the buildings or tenements on said premises shall be so destroyed or injured by fire so as to become untenable, then this lease shall become thereby terminated, if said party of the second part shall so elect, but in the event the party of the first part shall have insurance covering the said premises, and if the party of the second part so desires, it shall rebuild same as quickly as possible and the party of the second part shall have the right of occupancy of the premises rebuilt upon their completion upon the same terms and conditions as herein expressed, but during such period as the property is not tenantable, it shall not be obliged to pay

any rent therefor, but shall pay rent up to the time of the destruction or injury of said premises.

The party of the first part shall maintain the premises herein leased as required by the laws and rules of either the Health or Labor Departments of any city, town, or state in which the premises are located.

The party of the first part shall keep the premises and any property herein leased in a good tenantable and usable condition, and shall carry insurance, including plate glass, on same. The party of the second part shall not be responsible for any loss or damages to said premises or any property herein leased unless through its negligence or the negligence of its employees.

The party of the second part shall have the right to paint the property herein leased any color that it may desire and to put such signs in, on or about the premises and property as it desires.

The party of the first part hereby agrees to allow no groceries, canned goods, canned meats, butter, eggs, cheese, fresh fruits and vegetables, fresh or smoked meats of any nature or description to be sold in the block of buildings of which the store above described is a part, and that it will restrain anyone conducting a business in the building from carrying these particular commodities for the full period of this lease.

The party of the second part agrees that he will hold and occupy the premises herein sub-let to him only as a sub-tenant of the party of the first part and that he will not during the period of this agreement nor for a period of five years after any termination hereof acquire any other interest in said leased premises by purchase, lease or otherwise without the prior written consent of the party of the first part.

The party of the second part agrees that this sub-lease forms a part of a transaction between the parties hereto incorporated in an agreement between them dated_____, 19____, and is subject to all the terms and conditions of said agreement and that in the event said agreement is terminated for any reason or under any circumstances, this lease shall be deemed to be and shall become terminated coincident with the termination of said agreement.

WITNESS, The hands and seals of the said parties, the day and year first above written.

WITNESSED BY _____ (L.S.)
Party of the First Part

WITNESSED BY _____ (L.S.)
Party of the Second Part

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